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DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, EDUCATION, AND RELATED AGENCIES APPROPRIATIONS FOR 1987

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON THE DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, EDUCATION, AND RELATED AGENCIES

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Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE
60-385 O WASHINGTON : 1986

For sale by the Superintendent of Documents, Congressional Sales Office
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H181-59

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DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION, AND RELATED AGENCIES APPROPRIATIONS FOR 1987

THURSDAY, MARCH 20, 1986.

SOCIAL SECURITY ADMINISTRATION

OFFICE OF REFUGEE RESETTLEMENT

OFFICE OF CHILD SUPPORT ENFORCEMENT

WITNESSES

NELSON J. SABATINI, ASSOCIATE COMMISSIONER FOR MANAGEMENT, BUDGET AND PERSONNEL, SOCIAL SECURITY ADMINISTRATION

PHILLIP N. HAWKES, DIRECTOR, OFFICE OF REFUGEE RESETTLEMENT

STEVE RITCHIE, DIRECTOR, OFFICE OF CHILD SUPPORT ENFORCEMENT

JO ANNE B. ROSS, ASSOCIATE COMMISSIONER FOR FAMILY ASSISTANCE

SHERWIN T. MONTELL, DIRECTOR, OFFICE OF FINANCIAL RESOURCES

DENNIS P. WILLIAMS, ACTING DEPUTY ASSISTANT SECRETARY, BUDGET, DEPARTMENT OF HEALTH AND HUMAN SERVICES

INTRODUCTION OF ASSOCIATES

Mr. NATCHER. At this time, we take up the budget request for the Social Security Administration, and we have before the committee Mr. Nelson Sabatini, the Deputy Commissioner for Management and Budget.

Who do you have there at the table with you?

Mr. SABATINI. I have with me today Mr. Sherwin Montell, Director of our Office of Financial Resources, and Mr. Steve Ritchie, Director of the Office of Child Support Enforcement; Ms. Jo Anne Ross, Director of the Office of Family Assistance; Mr. Phillip Hawkes, Director of the Office of Refugee Resettlement; and Mr. Williams from the Department of Health and Human Services.

Mr. NATCHER. We will take the three accounts together. You each have a statement for us, and we will be pleased to hear from each of you.

OPENING REMARKS—SSA

Mr. SABATINI. Mr. Chairman, I am pleased to be here today to present the fiscal year 1987 appropriations requests for the Social Security Administration, and the Office of Refugee Resettlement.

After my remarks, Mr. Hawkes would like to make a brief statement concerning the budget request for the Refugee program, and

Mr. Ritchie will make an opening statement for the Child Support Enforcement Program.

SSA's requests before the committee total $26.7 billion in budget authority, for the following accounts: Payments to Social Security Trust Funds, Special Benefits for Disabled Coal Miners, Supplemental Security Income, Assistance Payments, Low Income Home Energy Assistance, Refugee and Entrant Assistance and the Limitation on Administrative Expenses.

Funds to pay benefits from Old Age and Survivors Insurance and Disability Insurance Trust Funds are permanently appropriated, and therefore are not part of the budget requests before this committee.

I would like to mention two key initiatives of the agency: improvements in service to the public and disability program reform.

During the past year, we have continued progress on the Systems Modernization Plan, to modernize SSA's system of hardware, software and storage capacity. In 1985, we reached a significant milestone in nationwide implementation of the modernized claims system when two pilot field offices began taking claims under the new process.

Phasing in of offices will continue throughout this year, and SSA will begin to realize workyear savings from it in fiscal year 1987.

In recent years, SSA has reduced employment and at the same time improved service to the public through efficiencies achieved from management initiatives and increased automation of work.

At the same time, we served increasing OASI, DI and SSI beneficiary populations, while we reduced our workload backlogs significantly and improved claims and hearings processing times.

For example, overall average processing times for social security and SSI claims and hearings in the last quarter of fiscal year 1985 had improved by at least 6.6 percent and as much as 33.7 percent compared to the last quarter of fiscal year 1984.

We processed the bulk of the 190 million 1984 annual wage reports two months earlier than the prior year's processing time.

We completed adjustment of social security benefit payment amounts to include earnings for calendar year 1982 and 1983 earnings with improvements in timeliness and degree of automation.

We will continue to improve our procedures and work processes in fiscal years 1986 and 1987 so that we can better serve the public and at the same time gradually, through attrition, reduce SSA workyears and employment.

On January 6, 1986, SSA resumed processing periodic reviews of the continuing eligibility of disability beneficiaries after a moratorium of 21 months, during which time legislation was enacted and regulations were developed to improve policies and procedures in the disability programs administered by SSA.

The cornerstone of the revised continuing disability review process is a new medical improvement standard. Unless certain exceptions are met, individuals will continue to receive disability benefits if current medical evidence shows no improvement in their ability to work since they were last evaluated.

This and other significant changes required by the Disability Benefits Reform Act of 1984 lay the groundwork for the administration of a fair, compassionate and nationally uniform disability program.

Before concluding my remarks, I would like to address the effects of the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act of 1985 on SSA's 1986 budget. The legislation explicitly exempts OASDI benefits, SSI payments and AFDC grants from reduction.

Although automatic benefit increases in the black lung program are not exempt, there is no increase in 1986, so there is no reduction.

The Low Income Home Energy Assistance Program and the Refugee program are not exempted, and therefore are subject to a 4.3-percent reduction.

Resources available for Federal administrative expenses are also reduced by 4.3 percent in 1986. In no case do we expect this to result in reductions-in-force or furloughs.

In SSA's largest administrative account, the Limitation on Administrative Expenses, resources budgeted for the Disability State Agencies, which determine the existence and continuation of disability, are exempted from sequestration.

Reductions to meet the requirements of the Gramm-Rudman-Hollings Act have been taken in overtime and nonceiling workyears, the contingency reserve and other objects of expenditure, including automated data processing and telecommunications expenses.

We do not anticipate that this action will result in any significant diminution of service to the public. Should the reduction in overtime lead to rising backlogs or processing times, consideration will be given to tapping the contingency reserve to increase workyears.

The administrative budget reductions will require some belt-tightening, but we do not expect that they will impair delivery of program services to any significant degree.

I will now turn to Mr. Hawkes for a moment.

[The full statement of Mr. Sabatini follows:]

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Statement by the Acting Deputy Commissioner
for Management and Assessment
Social Security Administration
on
Fiscal Year 1987 Appropriation Requests

Mr. Chairman and members of the Committee, I am pleased to be here today to present the fiscal year 1987 appropriations requests for the Social Security Administration and the Office of Refugee Resettlement. These requests total $26.7 billion in budget authority.

Summary of Budget Requests before the Committee

I would like to summarize the fiscal year 1987 requests before your Committee that require appropriations action.

--$500.6 million for Payments to Social Security Trust Funds. Through this account the trust funds are reimbursed for the costs of certain benefits and administrative expenses chargeable to general Federal funds.

--$963.4 million for Special Benefits for Disabled Coal Miners. These funds cover benefit payments and administrative expenses for the portion of the black lung program administered by SSA.

--$10.6 billion for the Supplemental Security Income program. This request includes SSI benefits and reimbursement to the Social Security trust funds for the administrative costs of the SSI program.

--$8.2 billion for the Assistance Payments program. This appropriation includes the Federal share of the benefit costs of the Aid to Families with Dependent Children program, and funds for State and Federal administration of the AFDC program. Child support enforcement collections are included in this account as an offset to AFDC benefit payments.

--$2.1 billion for the Low Income Home Energy Assistance Program. This program provides assistance to low income households in meeting the costs of home energy.

--$374.0 million for Refugee and Entrant Assistance. This program reimburses States for the costs of providing direct cash and medical assistance to needy refugees and Cuban-Haitian entrants, as well as English language training, vocational training and other social services.

--$4.0 billion for the Limitation on Administrative Expenses. This request provides resources needed to administer the Old-Age and Survivors and Disability Insurance programs. It also includes funds to finance costs of certain administrative functions performed for the Medicare program by the Social Security Administration, and it includes administrative funds for the Supplemental Security Income program and several smaller activities. The trust funds are reimbursed for the administrative costs of the SSI and other nontrust funds programs through appropriations to other accounts.

Funds to pay benefits from Old-Age and Survivors Insurance and Disability Insurance Trust Funds are permanently appropriated, and therefore are not part of the budget requests before this Committee.

In this statement I would like to address two key initiatives of the Agency--improvements in service to the public and disability program reform.

Systems Modernization, Management Improvements and Service to the Public

During the past year we have continued progress on the Systems Modernization Plan, to modernize SSA's system of hardware, software and storage capacity. In 1985 we reached a significant milestone in nationwide implementation of the modernized claims system when two pilot field offices began taking claims under the new process. The modernized system includes immediate entry of application information into the automated claims system and immediate editing of that data, systems generation of completed application documents for signature, and automation of most claim computations. An additional 18 pilot offices are now testing the software for the new system. Phasing in of offices will continue throughout this year and SSA will begin to realize workyear savings from it in fiscal year 1987.

In recent years SSA has reduced employment and at the same time improved service to the public through efficiencies achieved from management initiatives and increased automation of work. In fiscal year 1985 SSA's full-time equivalent usage declined by about 2,200 from the fiscal year 1984 level. We also reduced our rate of overtime usage because of the moratorium on processing continuing disability reviews which was in effect during FY 1985, and because we received many fewer inquiries related to taxation of benefits than were anticipated in the budget. During that period we served increasing OASI, DI and SSI beneficiary populations while at the same time we reduced our workload backlogs significantly and improved claims and hearings processing times. For example:

- o Overall average processing time for SSI aged claims declined to 10.8 days in the last quarter of fiscal year 1985, an improvement of 5.5 days compared to the last quarter of FY 1984. Processing time for SSI blind and disabled claims declined to 57.7 days in the last quarter of fiscal year 1985, from 71.4 days at the end of fiscal year 1984. Likewise, RSI claims processing time improved from 23.4 days to 21.4 days, and DI claims processing time improved from 70.7 days to 66.0 days.
- o SSA processed the bulk of the 190 million 1984 annual wage reports 2 months earlier than the prior year's processing time.
- o We completed adjustment of Social Security benefit payment amounts to include 1982 earnings, and made adjustments for 1983 earnings with improvements in timeliness and degree of automation. The adjustment for 1983 earnings was completed 5 months earlier than it had been for 1982 earnings, which means that beneficiaries received increases in their checks 5 months earlier.

- o In the field offices, the number of initial disability insurance claims pending declined by more than 10 percent from 260,000 to 233,400, and the number of SSI aged claims pending declined by 51 percent from 12,500 to 6,100.
- o In the program service centers we have reduced the number of retirement and survivors insurance claims pending by 6.8 percent from 91,800 to 85,600; and in the Office of Disability Operations we have reduced the number of initial disability insurance claims pending by 26.6 percent from 48,500 to 35,600.

We will continue to improve our procedures and work processes in fiscal years 1986 and 1987 so that we can better serve the public and at the same time gradually, through attrition, reduce SSA workyears and employment. Some examples of planned improvements and/or changes budgeted to save workyears and improve service in 1986 or 1987 are:

- o Implementation of the automated claims process which will make the Social Security claims taking more efficient and more accurate.
- o Expansion of district office final authorization of initial claims to include cases currently referred to the program service centers for final authorization.
- o Increase in the amount of annual wage reports which are received on magnetic media rather than on paper.
- o Increased automation in support of the present SSI and RSI claims systems, and in several postentitlement activities.
- o Modernization of SSA's telecommunications network to speed up processing of claims and beneficiary inquiries.
- o Replacement of outmoded hardware in the processing centers which is used to process claims and provide management information.

Implementation of the Disability Benefits Reform Act of 1984

On January 6, 1986 SSA resumed processing periodic reviews of the continuing eligibility of disability beneficiaries after a moratorium of 21 months, during which time legislation was enacted and regulations were developed to improve policies and procedures in the disability programs administered by SSA. The cornerstone of the revised continuing disability review (CDR) process is a new medical improvement standard which establishes criteria to be applied in determining whether a person's disability continues. Individuals will continue to receive disability benefits if current medical evidence shows no improvement in their ability to work since they were last evaluated. This and other changes required by the Disability Benefits Reform Act of 1984 (P.L. 98-460) lay the groundwork for the administration of a fair, compassionate and nationally uniform disability program.

Other new rules for the disability program include:

- o Updated criteria for evaluating mental impairments. The new standards are designed to determine more realistically the ability of persons with mental impairments to function in a competitive work environment, and they were written with the help of the professional community. Also, the new criteria require a more intensive review of each case, including reviews by qualified psychiatrists and psychologists. This year we will be reviewing, under the new criteria, 185,000 mental impairment cases denied since enactment of the Disability legislation in October 1984.

- Evaluation of the combined effects of all of an individual's impairments in determining whether the individual has a severe impairment, rather than the effects of each impairment separately.
- Continuation of benefits through the appeals process to the administrative law judge level, if elected by individuals who have been notified of medical cessation decisions.

The Balanced Budget and Emergency Deficit Control Act of 1985

Before concluding my remarks I would like to address the effects of the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act of 1985 on SSA's 1986 budget. The legislation explicitly exempts OASDI benefits, SSI payments and AFDC grants from reduction. Although automatic benefit increases in the black lung program are not exempt, there is no increase in 1986, so there is no reduction.

The Low Income Home Energy Assistance program and the Refugee program are not exempted and therefore are subject to a 4.3 percent reduction.

Because of the flexibility given to grantees in the energy program, it is impossible to forecast the specific effects of sequestration on individual households. In the Refugee program, the reduction will be accomplished primarily by reducing the period for Federal reimbursement of State cash and medical assistance to refugees from 36 to 31 months.

Resources available for Federal administrative expenses are also reduced by 4.3 percent in 1986. In no case do we expect this to result in reductions-in-force or furloughs.

In SSA's largest administrative account--the Limitation on Administrative Expenses (LAE)--resources budgeted for the Disability State Agencies, which determine the existence and continuation of disability, are exempted from sequestration. Reductions to meet the requirements of the Gramm-Rudman-Hollings Act have been taken in overtime and nonceiling workyears, the contingency reserve and other objects of expenditure, including automated data processing and telecommunications expenses. We do not anticipate that this action will result in any significant diminution of service to the public. Should the reduction in overtime lead to rising backlogs or processing times, consideration will be given to tapping the contingency reserve to increase workyears.

The administrative budget reductions will require some "belt-tightening", but we do not expect that they will impair delivery of program services to any significant degree. SSA will continue to carry out its initiatives in support of the Agency's four major goals:

- to provide timely and accurate payment of benefits,
- to administer the program efficiently and effectively,
- to provide courteous, sensitive and dignified service to the public, and
- to strive toward a positive work climate for all employees.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Statement by the Acting Deputy Commissioner
for Management and Assessment
Social Security Administration
on
Payments to Social Security Trust Funds

The appropriation request for Payments to Social Security Trust Funds totals $500,555,000 and covers four general Federal fund payments to the Social Security trust funds.

Military Service Credits

The request before this Committee for Military Service Credits in FY 1987 is for $368,917,000. This includes the estimated amount of employer-employee OASDI payroll taxes for calendar year 1987 payable on the deemed wage credits of military service personnel. It also includes an adjustment for 1983 actual wage credits. The payment has the same effect on the trust funds as if the deemed wages had been taxed as covered wages.

The request does not include funds for the cost of gratuitous wage credits granted for military service performed prior to 1957. Annual payments for this purpose were replaced by a lump sum payment under the terms of the Social Security Amendments of 1983, with adjustments to occur every 5 years beginning in 1985.

Special Payments to Certain Uninsured Persons

The second requested payment of $69,394,000 is to reimburse the Old-Age and Survivors Insurance trust fund for special benefits paid during FY 1985 to certain uninsured persons aged 72 years and over. The payments are made to individuals who did not have a chance to work long enough under Social Security to become insured. These beneficiaries, a declining population, were not eligible for regular monthly Social Security benefits, primarily because they retired before enactment of the Social Security Act or before their occupations were covered under Social Security.

The FY 1987 request for Special Payments to Certain Uninsured Persons is $20,870,000 below the FY 1986 estimate. The population receiving special payments is a closed group of very aged persons which declines annually. As of September 30, 1985, 32,000 persons were receiving benefits chargeable to the general funds under this provision as compared to 40,000 a year earlier.

Reimbursement for Pension Reform Administrative Costs

The third requested payment is for $744,000 to reimburse the Old-Age and Survivors Insurance trust fund for the general Federal funds share of the cost of administering pension reform responsibilities assigned to the Social Security Administration under Public Law 93-406, the Pension Reform Act. The reimbursement is for the cost of furnishing information on deferred vested pension rights to pension plan participants or their survivors. The FY 1987 estimate for pension reform administrative costs reflects a continuation of SSA's FY 1986 pension reform activities.

Unnegotiated Checks

The fourth and final requested payment of $61,500,000 is to reimburse the trust funds for the value of benefit checks that remain uncashed after 6 months, plus interest. The Social Security Amendments of 1983 provided for reimbursements based upon estimates developed jointly by the Departments of Health and Human Services and Treasury until a system capable of identifying the exact number and amount of uncashed benefit checks is implemented by the Treasury Department.

In FY 1985 a joint Treasury/Health and Human Services study of uncashed Government checks was completed. The Departments of Health and Human Services and Treasury agreed on the amount of adjustments for FY 1983 and FY 1984, as well as a preliminary transfer for FY 1985 based on the results of the joint study. The additional prior year requirements arising from the joint determination were funded from available prior year unobligated balances.

The determination for FY 1984 unnegotiated checks exceeded available unobligated FY 1984 balances. The balance was partially funded from the FY 1985 appropriation. It was also necessary to use $11.5 million of the FY 1986 appropriation to completely fund FY 1984 unnegotiated checks. Since FY 1986 unnegotiated checks are still estimated at $50 million we have included in our FY 1987 appropriation request $11.5 million to fully reimburse the trust funds for the estimated FY 1986 requirements. The estimate for FY 1987 unnegotiated checks is $50 million.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Statement by the Acting Deputy Commissioner
for Management and Assessment
Social Security Administration
on
Special Benefits for Disabled Coal Miners

This FY 1987 appropriation request for Special Benefits for Disabled Coal Miners totals $693,437,000 and is financed from general revenues. This is in addition to the $270,000,000 which Congress provided last year as a FY 1987 advance appropriation to fund first quarter benefit payments. Therefore, the total FY 1987 appropriation is $963,437,000. It includes $957,000,000 for FY 1987 benefit payments and $6,437,000 for administrative costs. It does not include reimbursable work done for the Department of Labor, which is budgeted for by that Agency.

Program Authorization

The black lung program is authorized by title IV of the Federal Mine Safety and Health Act of 1977, which provides for payment of monthly cash benefits to coal miners who are totally disabled because of pneumoconiosis, commonly referred to as black lung disease, and to widows and certain other dependents of miners who were entitled to these benefits or whose deaths were due to this disease.

Responsibility for Administration

The Social Security Administration is responsible for processing and paying claims for miners' benefits filed from December 30, 1969 through June 30, 1973 and claims for survivors benefits filed through December 31, 1973 or within 6 months after the death of a miner or widow already on the beneficiary rolls maintained by SSA. SSA pays benefits and maintains the beneficiary rolls for the lifetime of all persons who filed with SSA during its jurisdiction.

Since June 30, 1973 SSA has continued to take miners' claims--but as an agent of the Department of Labor, which is responsible for adjudication and payment of these claims. Costs incurred by SSA in taking these claims are reimbursed by the Department of Labor.

The beneficiary rolls for which SSA has responsibility will continue to decline gradually in years to come as a result of the death of miners and the death or remarriage of widows. At the midpoint of FY 1987, 273,000 beneficiaries will be receiving monthly benefits. This is a decrease of 18,000 from the 291,000 beneficiaries who will be receiving payments at the midpoint of FY 1986.

Explanation of Change for FY 1987 Request

We estimate benefit payment obligations to be $957,000,000 in FY 1987--$35,000,000 less than in FY 1986. The President's budget estimates assume a 3.0 percent increase in black lung benefits beginning January 1987.

The decrease in total benefits is due to a reduction of $50,000,000 for the lower number of black lung beneficiaries, a reduction of $2,000,000 for slightly lower average monthly payments for beneficiaries in current pay, and a reduction of $1,000,000 for the legislative proposal, incorporated in appropriation language, to round benefits consistent with the manner in which title II benefits are computed. These reductions are partially offset by an increase of $18,000,000 due to the effect of the projected January 1987 benefit increase of 3.0 percent.

Our budget request of $6,437,000 for FY 1987 black lung administrative expenses is $198,000 higher than the current estimate for FY 1986. This is primarily to restore the Gramm-Rudman-Hollings reduction of $280,000 taken in FY 1986 but not in FY 1987.

Advance Appropriation

The budget request includes an advance appropriation of $252,450,000 for the first quarter of FY 1988. This is $17,550,000 less than the amount requested last year for the first quarter of FY 1987 because of the declining beneficiary population. This request ensures that benefit payments will continue without interruption into the next fiscal year.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Statement by the Acting Deputy Commissioner
for Management and Assessment
Social Security Administration
on
Supplemental Security Income

The Supplemental Security Income (SSI) appropriation provides funds through direct cash assistance to eligible aged, blind and disabled recipients to help finance their basic needs. The appropriation request for FY 1987 is $8,230,068,000 in addition to the $2,339,250,000 already appropriated for the first quarter of FY 1987, to bring the total appropriation to $10,569,318,000. This includes $9,589,000,000 for Federal benefits to aged, blind and disabled recipients; $8,200,000 for beneficiary rehabilitation services; and $972,118,000 for payments to the trust funds for administrative costs. Also requested is $2,765,000,000 as an advance appropriation for SSI benefits in the first quarter of FY 1988.

Federal Benefit Payments

The SSI program ensures a minimum monthly level of income to eligible aged, blind and disabled individuals. An individual's income, resources and living arrangements are evaluated to determine the actual amount of SSI payment. Payments are delivered through monthly benefit checks.

The average monthly number of SSI recipients of Federal benefits is projected to increase from 3,813,000 in FY 1986 to 3,912,000 in FY 1987, an increase of 99,000. This increase is due to projected growth in the number of blind and disabled SSI recipients, partially offset by a slight decrease in the projected number of aged SSI recipients.

The FY 1987 request for Federal benefit payments is $9,589,000,000 or $704,098,000 higher than the FY 1986 level. This increase is needed to fund:

--The 3.7 percent cost-of-living increase projected for January 1, 1987 and
--The projected increase in the number of blind and disabled recipients.

Beneficiary Rehabilitation Services

SSA provides funds to reimburse vocational rehabilitation agencies for costs incurred in successfully rehabilitating SSI recipients and in instances of discontinuation of benefits prior to completion of vocational rehabilitation. We estimate that $6.2 million will be required for vocational rehabilitation in FY 1987. This is $1 million more than the FY 1986 level. In addition, we are requesting $2.0 million (the same amount as in FY 1986) for the referral to treatment and monitoring of participation of SSI recipients with drug or alcohol dependency.

Payments to the Trust Funds for Administrative Costs

The SSI and Social Security programs are administered on an integrated basis for purposes of economy and efficiency. The Social Security Act authorizes advances from the Social Security trust funds to pay the administrative costs of the SSI program through the Limitation on Administrative Expenses account. The advances are fully repaid from the SSI appropriation. SSA maintains a detailed cost allocation system, which has been audited by the General Accounting Office, to ensure that the trust funds are made whole (with interest, if appropriate) for the administrative expenses of the SSI program. The FY 1987 request for this activity is $972,118,000.

Advance Appropriation

The budget request includes an advance appropriation of $2,765,000,000 for the first quarter of FY 1988. This request insures that benefit payments will continue without interruption into the next fiscal year.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Statement by the Acting Deputy Commissioner
for Management and Assessment
Social Security Administration
on
Assistance Payments

The Assistance Payments appropriation provides funds through grants to States to pay for the Federal share of State-administered cash maintenance assistance payments to needy families with dependent children who are deprived of parental support due to death, incapacity, absence or unemployment of a parent. Although the Social Security Administration is responsible for the programs covered by this appropriation, no trust fund money is used for assistance payments purposes.

The appropriation request for FY 1987, which reflects $236,742,000 in savings from proposed legislation, is $6,009,478,000. This is in addition to the $2,193,754,000 which Congress provided last year as a FY 1987 advance appropriation to fund first quarter grants to States. Therefore the FY 1987 appropriations total $8,203,232,000. The total includes $8,168,331,000 for maintenance assistance; $2,925,000 for research and evaluation; and $31,976,000 for Federal administrative expenses.

At this time we also are requesting an advance appropriation of $2,293,615,000 to fund first quarter FY 1988 grants. This request also reflects savings from proposed legislation. The advance appropriation will provide funds in FY 1987 for issuing advance grants for the first quarter of FY 1988. Such a procedure enables States to continue program operations without interruption and to plan in advance.

Maintenance Assistance

The FY 1987 request for the Federal share of the maintenance assistance activities, is $8,168,331,000. The request includes:

--$6,825,863,000 for the Federal share of Aid to Families with Dependent Children (including a reduction for offsetting child support collections of $417,000,000 and a reduction for offsetting fiscal liabilities of $777,200,000).

--$13,368,000 for assistance to aged, blind and disabled adults in Puerto Rico, Guam and the Virgin Islands; the Supplemental Security Income program does not cover these jurisdictions.

--$81,900,000 for the Federal share of emergency assistance to needy families with dependent children.

--$1,239,584,000 for the Federal share of State administration and training.

--$6,616,000 for administration and training costs in Puerto Rico, Guam and the Virgin Islands.

--$1,000,000 for assistance to repatriated U.S. Nationals returning from foreign countries who have been certified by the Department of State as destitute or ill.

The FY 1987 request for these maintenance assistance activities is $790,966,000 lower than the FY 1986 level for the same activities. This decrease is the net result of several factors of decrease and increase, primarily in the AFDC and State administration and training costs activities. Significant decreases in the Federal share of costs result from the following factors:

--A net decrease of $237 million from the FY 1986 level as a result of savings from legislation proposed for enactment in FY 1987. The major proposals would require States to gradually increase participation of employable adult AFDC applicants and recipients in Job Search and other work activities, achieving a 75 percent participation level in FY 1989; and would improve the targeting of AFDC benefits, primarily by excluding the needs of an employable parent from the AFDC benefit calculation when the youngest child reaches age 16, and allowing benefits for the essential person only when such recipients are necessary to allow the caretaker relative to work or are necessary because the caretaker is incapacitated.

--Increased savings of $777 million from the collection of fiscal liabilities from the States for error rates exceeding the congressionally-mandated targets for the FY 1981 through FY 1985 reporting periods.

--Increased savings of $31 million in Child Support Enforcement collections resulting from changes in mandatory State practices and the new incentive structure provided by the Child Support Enforcement Amendments of 1984, and the Federal income tax refund offset program established by the Omnibus Budget Reconciliation Act of 1981.

Significant increases in maintenance assistance are:

--AFDC increases $171 million as a result of economic and demographic factors including: an increase in average benefits due to inflation which is reflected in higher State standards of need; an increase in the number of families headed by females, a major factor in the AFDC caseload; and an offsetting decrease in the unemployment rate.

--Federal reimbursement for State and local administration increases by approximately $241 million. Out of this total, $200 million result from the increased State administrative workloads to implement the Administration's work opportunities legislative proposal. These costs are offset by savings of $252 million in AFDC benefits generated by this proposal. Other increases in State and local administration are caused by increases in the AFDC caseload and an increase in State payroll costs.

Research and Evaluation

We are requesting $2,925,000 for research and evaluation grants and contracts under sections 1110 and 1115 of the Social Security Act, an increase of $126,000 over the FY 1986 level. The aim of these projects is to improve the management of the AFDC program and to assess policies which promote work experience for recipients and thus reduce welfare dependency. Although most of the money is for research and demonstration projects related to the AFDC program, some of the funds are used for Social Security and SSI extramural research grants and contracts.

Federal Administrative Expenses

The FY 1987 request includes $31,976,000 for Federal administrative expenses, a decrease of $497,000 from the FY 1986 level, and 585 full-time equivalents, a decrease of 50 from FY 1986. An increase for mandatory costs such as the costs of within-grade raises and promotions is more than offset by decreases in workyear requirements resulting from reduced Federal staffing for overhead and management functions.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Statement by the Acting Deputy Commissioner
for Management and Assessment
Social Security Administration
on
Low Income Home Energy Assistance

The Low Income Home Energy Assistance Program (LIHEAP) appropriation provides funds through grants to States and Indian tribes to enable them to provide assistance to low income households in meeting the costs of home energy. The FY 1987 budget request is for $2.1 billion for this purpose. This is a continuation of the level appropriated by Congress for the FY 1986 program prior to the $90.3 million Gramm-Rudman-Hollings sequester order. We believe this amount will provide a reasonable level of assistance to meet program needs while supporting the President's efforts to reduce the deficit.

Authorization of the program under the Low Income Home Energy Assistance Act of 1981 expires at the end of FY 1986. Legislation will be proposed to reauthorize the program $2,100,000,000 for FY 1987.

Program Grants

We are requesting $2,097,642,000 in FY 1987 to provide grants to States, Indian tribes, and other jurisdictions to aid low income families through payments to eligible households and energy suppliers. States and Indian tribes use this assistance primarily for heating but may also use it for cooling and low cost weatherization. The FY 1987 request will continue program activities at the current level.

Federal Administration

The FY 1987 request includes $2,358,000 for funds to enable the Social Security Administration to administer the energy block grant to States, Indian tribes, and other jurisdictions. The FY 1987 request is for 32 full-time equivalents. Administrative activities include review of State and Indian tribe applications and amendments, issuance of grants, compliance and monitoring reviews, financial management functions, and preparation of the annual report to Congress. The $2,358,000 represents a $219,000 increase from the FY 1986 level. This increase is due primarily to the additional costs of contract activities necessary to prepare reports to Congress, update the allocation formula and other program activities. It also reflects increases in personnel compensation, including step increases and career ladder promotions.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Statement by the Acting Deputy Commissioner for Management and Assessment Social Security Administration on Limitation on Administrative Expenses

The Limitation on Administrative Expenses is a request for authority to spend up to $4,011,373,000 in FY 1987 from the trust funds for administrative expenses of the Social Security Administration. From this account we pay for administration of the old-age and survivors and disability insurance programs, the supplemental security income (SSI) program for the aged, blind and disabled, Medicare work performed by SSA and certain other work. For reasons of economy and efficiency SSA has integrated administration of both trust fund and some nontrust fund programs. The Social Security Act authorizes payment of SSI and certain other nontrust fund administrative expenses from this account, with full reimbursement from general funds in other accounts.

Of the new 1987 budget authority requested:

--$1.2 billion is for administering the old-age and survivors insurance program,
--$1.4 billion is for the disability insurance program,
--$142.3 million is for SSA's Medicare support functions,
--$952.6 million is for administering the SSI program,
--$76.1 million is for processing annual reports of earnings,
--$33.9 million is for annual SSA purchase contract payments on buildings previously constructed under the purchase contract method of financing, and
--$160 million is for a contingency reserve.

Included in the first five activities is $225.4 million in budget authority for automatic data processing and telecommunications activities and $760 million for the Disability State Agencies.

Contingency Reserve

For approximately the last 20 years, Congress has approved a contingency reserve for SSA's basic administrative budget account, the Limitation on Administrative Expenses. The reserve enables SSA to make a rapid response to process increased workloads not anticipated in the budget estimates, for automation projects and their impact on the workforce, and to meet mandatory increases in costs of Disability State Agencies. The $145 million contingency reserve appropriated in FY 1986 was reduced by $6.2 million to $138.8 million as a result of the Balanced Budget and Emergency Deficit Control Act of 1985, also known as the Gramm-Rudman-Hollings legislation. SSA is asking that the contingency reserve be increased in FY 1987 to $160 million.

The request for a contingency reserve of $160 million is necessary primarily because of continued uncertainties about the costs of administering the disability program. Disability program administration is undergoing significant change as a result of the Disability Benefits Reform Act of 1984. The cornerstone of this Act is a requirement that continuing eligibility for disability benefits be determined on the basis of a medical improvement standard. This ensures that no one is removed from the disability rolls unless their medical condition has improved, or certain exceptions are met. The Act also requires new criteria for evaluating mental impairment, and it introduces other new criteria for evaluation of disability.

The new medical improvement standard was not published in the Federal Register until December 6, 1985, and the new mental impairment regulations were published only a few months earlier. Reviews of continuing eligibility for disability benefits under the new standards began in January 1986. Previous to this time there has been a moratorium on continuing disability reviews.

For this reason the Social Security Administration had no experience under the new regulations when the FY 1987 budget was formulated. We have no base of experience, for example, about how much time it will take the Disability State Agencies to make determinations of continued eligibility for disability benefits under the new standards, how much medical evidence will have to be purchased for mental impairment cases, or to what extent appeals of decisions will require reconsiderations and Administrative Law Judge hearings. Although we have made budget estimates, these estimates could be wide of the mark. To ensure sufficient resources are available if needed, we request the Congress to authorize a $160 million contingency reserve for FY 1987. If we don't need to tap the reserve we will not do so, and no outlays from the $160 million will occur for this. If we need it, the reserve will be available.

Automatic Data Processing (ADP) and Telecommunications

The FY 1987 request for new no-year budget authority for ADP and telecommunications is $225.4 million. However, we estimate that we will obligate $340.0 million in FY 1987, which reflects the carryover of unobligated funds from prior years, as well as a proposed change in FY 1987 to broaden the definition of telecommunications costs which are included in the no-year earmark. We are proposing to include lease, maintenance and voice communication costs in addition to the costs of telephone equipment purchases now included in the earmark. After adjustment for the definitional change, ADP and telecommunications budget authority decreases by $5.9 million in FY 1987 from the FY 1986 level, although estimated obligations increase by $18.5 million.

This level of funding in FY 1987 will provide for SSA's continued progress in modernizing its systems hardware and software as well as for the Agency's ongoing systems costs, and it will provide needed flexibility for funding the acquisition of telephone systems. We have made significant improvements in SSA's systems which permit us to provide better service to the public. For example:

--We've upgraded the capacity of the telecommunications system. Online access to beneficiary records such as the Social Security master beneficiary record (MBR) and the supplemental security record (SSR), are now available to SSA personnel to answer questions from beneficiaries more quickly and more completely.
--We began pilot testing a new computer-aided, claims taking process in two field offices. This was the first step in modernizing the claims system to improve its efficiency.
--We posted the bulk of 190 million 1984 annual wage reports 2 months earlier than the prior year's processing time. This permitted SSA to make accurate, more timely benefit payments and to avoid overpayments.
--We completed the Automatic Earnings Reappraisal Operation (AERO) for 1982 and 1983 earnings. The 1983 AERO was completed 5 months earlier than prior AERO's. This permitted SSA to adjust beneficiary checks more quickly for higher benefits due to earnings after retirement.

Some major projects budgeted for FY 1987 are:

--$66.9 million for modernization of the SSA telecommunications network that connects all field offices, program service centers and data operations centers with our central computer facilities. This will permit faster processing of claims and beneficiary inquiries by more of our employees who serve the public directly.
--$34.5 million for acquisition of new telecommunications host processors needed to handle the expanding telecommunications workloads from our field offices.
--$6.1 million is needed to complete replacement of outmoded hardware in our processing centers in order to modernize the systems that process claims, make payments, and track cases.
--$10 million to continue conversion of all files from tape to disk storage to permit faster access to information.

Disability State Agencies

The budget request includes $760.0 million for the Disability State Agencies in FY 1987, an increase of about $19 million over the $741.2 million budgeted for FY 1986. This reflects increases in workloads and medical costs. Some examples of principal State agency workloads for FY 1987 are:

--To process 1,631,000 new claims for disability, a decrease of 36,000 claims from the level in FY 1986.
--To process 478,200 continuing disability reviews (CDR's), an increase of about 131,000 over the level in FY 1986.
--To process over 720,000 reconsiderations of both new claims and CDR's, an increase of about 107,000 over the FY 1986 level. The increase in reconsiderations is due primarily to resumption of the CDR process in FY 1986. The increased costs are related to more face-to-face reconsiderations of CDR's, which are expected to be more time-consuming than reconsiderations of new claims involving only review of a paper record.

The State agency budget request includes $242.9 million for purchase of medical evidence of record and consultative examinations, an increase of $12.9 million over the level in FY 1986.

Federal Staffing

SSA's total workyear needs are based on projections of the workloads to be processed and how much time it will take to process those workloads. To achieve its overall workyear needs, SSA will continue to rely on a mix of full-time equivalents (FTE's), nonceiling employment and overtime workyears.

For this account, SSA is requesting 78,580 workyears for FY 1987, a decrease of 433 workyears from the FY 1986 level of 79,013 workyears. We plan to achieve FY 1987 workyears with 73,270 FTE's, 1,786 workyears of nonceiling employment (principally summer youth employment), and 3,524 workyears of overtime.

The amount of overtime and nonceiling employment increases in FY 1987 from the FY 1986 level by a total of 2,466 workyears. There are two reasons for this. First, we are restoring overtime and nonceiling workyears to their previous levels after taking much of the Gramm-Rudman sequestration in this area in FY 1986. Second, in a period when our productivity is increasing, we plan to use overtime to assist in making an orderly transition to a smaller workforce.

FTE's decrease in FY 1987 from the FY 1986 level by 2,899. SSA is able to reduce workyears and FTE's in FY 1987 from the FY 1986 level primarily because of management, procedural and systems improvements which are either planned or underway. For example, in FY 1987

--an estimated 439 workyears of savings will result from the new automated claims-taking process, which was first piloted in two field offices in FY 1985 and which will begin to be phased in throughout this year. The automated title II claims-taking process will include immediate data entry and editing, and systems generation of application documents.

--an estimated 146 workyears of savings by automating the process to offset an individual's initial retroactive Social Security benefit for periods in which he or she received SSI benefits.

--additional FTE savings will be achieved through the streamlining of SSA staff functions and increasing the number of annual wage reports received on magnetic media.

These and other changes will enable SSA to improve its service to the public and provide that service more efficiently.

Mr. NATCHER. Thank you very much, Mr. Sabatini.

I am going to go over and vote right now, and come right back. We will recess for just a few minutes.

REFUGEE PROGRAM OPENING REMARKS

Mr. NATCHER. Now Mr. Hawkes, we will be pleased to hear from you at this time.

Mr. HAWKES. Thank you, Mr. Chairman.

The Office of Refugee Resettlement is requesting $374 million, in the Refugee and Entrant Assistance Program for 1987. This figure contains some funds which are currently expended through the Office of Family Assistance and through the Health Care Financing Administration.

We are proposing for 1987 to cover all incoming needy refugees in one cash assistance program tailored specifically to their needs.

We believe that one of the major factors in the failure of the refugee program to date to direct a major proportion of refugees into early employment is that they go into the mainstream welfare program, where their needs are not adequately met, and where we are unable to reach them with refugee-specific employment related services.

The $374 million does not include funds for targeted assistance, or education aid for refugee schoolchildren.

In line with that request, we are also proposing recisions in 1986 for both of these line items. Since 1982, we have expended over $243 million in targeted assistance.

Last year, we expended a total of $150 million in a combination of targeted assistance and social services funds.

At the same time, the refugee dependency rate rose four points from 47.8 percent to over 52 percent. It appears that in spite of record high expenditures for programs which teach English, job training and place refugees in jobs, the number of refugees on public assistance is rising.

In Massachusetts, for instance, where the non-refugee unemployment rate is around 3 percent, which is among the lowest in the Nation, the refugee welfare rate is 80 percent, and rising.

We find no trends that would show that the access of refugees to jobs is dependent on local economic conditions. They seem to act independently of any factor in the economy. We don't believe we are getting very much for our $243 million. For that reason, we would like to zero it out.

We are also proposing a reduction in social services in 1986, from $69 million to $45 million. The rationale for this reduction is similar to that for targeted assistance. There are more than adequate funds to deal with refugees that have arrived in the country over the last three years, and the tendency seems to be that the more social services we put in place, the more refugees do not go to work, but instead take advantage of the social service programs.

Finally, we are proposing a rescission for the education aid for refugee schoolchildren. That program was first funded in 1981. It was specifically to help school districts which had no prior experience with Southeast Asian children, and to start up programs for those children.

That was five years ago. Today, most refugee resettlement is for family reunification. Thus children are coming into school districts that have considerable experience with Southeast Asian refugees.

We believe that this was a program to initiate the capacity to deal with such children, and it is no longer needed.

Thank you.

[The statement of Mr. Hawkes follows:]

STATEMENT BY

PHILLIP N. HAWKES

DIRECTOR, OFFICE OF REFUGEE RESETTLEMENT

BEFORE THE APPROPRIATIONS COMMITTEE

HOUSE OF REPRESENTATIVES

MARCH 20, 1986

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to discuss the refugee and entrant assistance program of the Department of Health and Human Services and the budget that we are proposing for FY 1987.

Title IV of the Immigration and Nationality Act and Section 501 of the Refugee Education Assistance Act of 1980 (Public Law 96-422) authorize a comprehensive program of cash and medical assistance and social services for refugees and Cuban and Haitian entrants. Funding for the program has been provided by a series of continuing resolutions since the authority to make appropriations expired at the end of fiscal year 1983. By the close of fiscal year 1985, 49 States, the District of Columbia and Guam had approved State plans for refugee resettlement. In addition, 33 States and jurisdictions currently provide assistance and services on behalf of Cuban and Haitian entrants.

The FY 1987 budget request of $373,998,000 for refugee and entrant assistance is premised on Congressional reauthorization of the refugee program with certain proposed modifications.

The modifications we are proposing would consolidate into the Refugee and Entrant Assistance account the share of assistance costs formerly funded through the AFDC and Medicaid Programs. In addition, the period for which full reimbursement of refugee assistance costs is available to States would be limited to an initial resettlement period of eighteen months. We believe that discontinuing the treatment of refugees and entrants on the basis of categorical eligibility will result in a more uniform policy of cash and medical assistance and foster a more intensive program of State-administered services aimed at achieving refugee and entrant economic self-sufficiency.

The new policy would alter the funding mechanism for refugee cash and medical assistance without changing the level of assistance available to resettling refugees and entrants. Those refugees who would otherwise be eligible for categorical assistance (AFDC and Medicaid) would continue to receive benefits under the refugee program at least equal to the comparable categorical benefits.

Funding is also requested for three activities in addition to the State Administered Programs. They are Preventive Health, Voluntary Agency Programs and Federal Administration. No funds are requested in FY 1987 to support refugee/entrant educational assistance or programs of targeted assistance. We have also requested that all funds appropriated in 1986 for Targeted Assistance and for Education Assistance be rescinded. Funds already provided have resulted in building educational capacity adequate to meet childrens' needs. In the case of Targeted Assistance, nearly $300 million have been expended in what was conceived as a short-term program of impact aid. In the context of Federal deficit reduction, these are areas where we believe Federal costs should be reduced.

In summary the four activities proposed for FY 1987 are briefly as follows:

1) State Administered Programs. We are requesting $356,560,000 under this activity to provide Federal funds for special cash and medical assistance provided under State administered programs toeligible refugees/entrants and for employment-related social services. The funds cover the entire cost of special cash and medical assistance for refugees/entrants during the first 18 months in this country, including the cost of States' supplementation of federal SSI benefits and the cost of services to refugee/entrant unaccompanied minors. Related State administrative costs are fully reimbursed as well.

Funding for refugee social services is included in the State Administered Programs request at a level of $46,803,000. This amount is $2,001,000 above the 1986 level under the proposed rescission. Funding under continuing resolutions over the past several years has fixed the level of social services resources in the face of a continued decline in numbers of arriving refugees with the result being that social services resources are now substantially in excess of need.

2) Preventive Health. We are requesting $10,355,000 to support two basic functions related to health care for refugees. First, funds will be made available for monitoring the adequacy of medical screening and assuring appropriate follow-up and treatment of refugees with diseases of public health concern. This work will be conducted by Centers for Disease Control (CDC) personnel stationed overseas and at ports of entry. They will work to assure the continued high quality of medical screening and disease surveillance overseas and inspection and State notification procedures at ports of entry. They will also continue to operate a computer system for refugee medical records and a tracking and notification system for refugees with class A/B tuberculosis, class B venereal disease, and class B leprosy.

The budget request also includes funding to cover a modest grant program to support State and local health agencies which conduct health assessments and immediate follow-up care for a variety of conditions including skin infections, intestinal parasites, malnutrition, and anemia. In addition, this activity will provide support to State and local health departments for follow-up and preventive treatment of refugees found to have tuberculosis infection.

3) Voluntary Agency Programs. For FY 1987, ORR proposes to decrease the Federal matching payment to voluntary agencies to $250 per refugee to further stimulate greater private sector financing. This program originated to provide additional funding for an alternate initial resettlement approach for Soviet and East European refugees during a period of unusually high arrival rates in 1979 and 1980.

The voluntary agency program is not intended as a program to supplement State-administered assistance but is an alternative program to provide national voluntary resettlement agencies with matching Federal funds for resettlement assistance and services for refugees. The principal objective is to enable the refugees to become self-supporting and independent members of American society. The essential services required are case management, job placement, and maintenance support for up to four months, as needed. Additional services which may be provided include English Language Training, medical assistance, and acculturation.

Funding is provided for this activity in lieu of regular State administered cash and medical assistance and social services. We are requesting $1 million for this program activity.

4) Federal Administration. The Office of Refugee Resettlement (ORR) was established by the Refugee Act of 1980 to be responsible for the management of the domestic refugee resettlement program.

We are requesting $6,083,000 for this activity. These funds are used to administer the annual appropriation for refugee and entrant assistance, to monitor the recipients of Federal grants under the Refugee Resettlement Program and the Cuban/Haitian Entrant Program, both fiscally and programmatically, and to continue national initiatives (such as planned secondary resettlement, alternative programs for cash and medical assistance, English language training and employment standards) in response to the problems of domestic resettlement.

I wish to thank you for the opportunity to address this subcommittee. I am prepared to respond to questions at this time.

CHILD SUPPORT ENFORCEMENT PROGRAM OPENING REMARKS

Mr. NATCHER. Mr. Ritchie, we will hear from you at this time.

Mr. RITCHIE. Mr. Chairman, we would like to present an abbreviated statement, if we may. I appreciate the opportunity to testify.

Established in 1975, the Child Support Enforcement program helps to strengthen families and reduce welfare by placing the responsibilities for supporting children where it belongs, with the parents.

It is one of the few government programs that helps needy families while also saving tax dollars.

Most of the funds collected for families receiving AFDC has gone to Federal and State governments to offset AFDC payments. Nonsupport is a serious problem for many women and children in America.

More than half of the Nation's 14 million children who live without their fathers are poor, and more than half of the women with support orders receive less than full payment or nothing at all.

The average annual amount received in 1983 was just over $2,300. The President and the Congress addressed the non-support problem with passage of the Child Support Enforcement Amendments of 1984, and the law we now have is beginning to work for single-parent families.

States are making progress in enacting enabling legislation and otherwise implementing the 1984 amendments. So far, 47 States have passed at least some legislation in response to Public Law 98-378.

Twenty of these same States have addressed the eight mandatory techniques required by the Federal law. Much more remains to be done, but progress since August 1984 has been encouraging.

The fiscal year 1987 budget request for Child Support Enforcement is $729 million. Included in this total is $171 million which Congress provided as an advance appropriation to fund first-quarter State and local administrative grants.

We are also requesting an advance appropriation of $187 million to fund fiscal year 1988 first-quarter grants. This procedure enables States to continue program operations without interruption, and to plan in advance.

Let me conclude by emphasizing the significant effort that Federal, State and local governments are demonstrating in their endeavor to achieve an improved, more efficient and effective Child Support Enforcement program.

There remains much to be done; but through the continued cooperation of all the parties, millions of American children will benefit.

[The statement of Mr. Ritchie follows:]

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Statement by Steve Ritchie, Director

Office of Child Support Enforcement

on

Child Support Enforcement

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to discuss the Child Support Enforcement program of the Department of Health and Human Services, and the budget we are proposing for FY 1987.

Established in 1975 as part D of title IV of the Social Security Act (the Act), the Child Support Enforcement program helps to strengthen families and reduce welfare spending by placing the responsibility for supporting children where it belongs: on the parents. It is one of the few government programs that helps needy families while also saving tax dollars. Most of the child support collected through the CSE program for families receiving Aid to Families with Dependent Children (AFDC) has gone to the Federal and State governments to offset AFDC payments. Since FY 1985 the first $50 of each current child support collection has been distributed directly to the family unit according to the requirements of the Deficit Reduction Act of 1984. As a result of this law, a smaller share of these collections are returned to the Federal and State governments and higher child support payments are required before families leave the AFDC rolls. Support payments collected through the program for non-AFDC families go directly to the family to help them remain self-sufficient. In every step of the process, the rights of the father, mother, and children are preserved. The billions of dollars the Child Support Enforcement program collects each year represent a direct benefit to children and families as well as a direct saving for taxpayers.

As most of you know, non-support is a serious problem for many women and children in this country. You have heard the sad statistics before. More than half of the Nation's 14 million children who live without their fathers are poor. More than half of the women with support orders receive less than the full child support payment due them or nothing at all, and the average annual amount received in 1983 was $2,341.

The President and Congress addressed this problem with the passage of the Child Support Enforcement Amendments of 1984 (P.L. 98-378). The law that we now have is beginning to work hard for single-parent families. States are making significant progress in enacting enabling legislation and otherwise implementing the 1984 Amendments. So far, 47 States have passed at least some legislation in response to P.L. 98-378. And 20 of these same States have addressed all eight mandatory techniques required by the Federal Government. Much more remains to be done, but the progress since August of 1984 has been encouraging.

The FY 1987 budget request for Child Support Enforcement is $729,000,000. Included in this total is $170,750,000 which Congress provided as an advance appropriation to fund first quarter State and local administrative grants. At this time we are also requesting an advance appropriation of $187,000,000 to fund first quarter FY 1988 grants. The advance appropriation will provide funds in FY 1987 for issuing advance grants for the first quarter of FY 1988. Such a procedure enables States to continue program operations without interruption and to plan in advance.

State and Local Administrative Costs

The effectiveness and the level of collections of a State's Child Support Enforcement program determine the incentive payment the State will receive. These incentive payments, estimated at $171,000,000 for FY 1987, are reflected as an offset to child support collections in the Assistance Payments Appropriation. We are requesting $692,000,000 of Federal funds to reimburse State and local administrative expenditures incurred in providing support enforcement services.

The Child Support Enforcement program provided a net savings to the taxpayer in FY 1985 by collecting $3.24 for every dollar spent. The Balanced Budget and Deficit Control Act (Gramm-Rudman-Hollings (P.L. 99-177)) required a sequestering of FY 1986 funds. This reduction is being largely achieved by reducing the Federal financial participation (FFP) in State and local administrative expenses of program operations, as required by the law, from 70 percent to 66.65 percent, and in statewide automated data processing (ADP) systems design and development, from 90 percent to 85.69 percent. Gramm-Rudman-Hollings maintains the incentive payment levels prescribed in the Child Support Enforcement Amendments of 1984.

Interstate Support Enforcement Project Grants

A chronic problem this nation has faced is one of enforcement of child support obligations across State lines. The Child Support Enforcement Amendments authorize demonstration projects to investigate and demonstrate innovative methods of solving this problem.

In FY 1985, 15 projects were awarded involving 37 States. Some of the projects will demonstrate or develop child support clearinghouses, paternity probability tables, data exchange systems, information standardization. It is anticipated that the initial round of FY 1986 grant awards will be completed shortly. Applications have been received from seven States to demonstrate centralized processing, interstate wage withholding, medical support enforcement, and electronic funds transfer. For FY 1987, we are requesting $15 million, the authorized level, for interstate support enforcement grants in order to continue projects already in progress, as well as, entertain new proposals.

Research and Evaluation

We are requesting $500,000 for research and evalution grants and contracts under section 1110 of the Social Security Act, the same as last year. These funds will be used to study ways to assess the progress of recent legislation and to improve distribution and accounting of collections, and for other purposes.

Federal Administrative Expenses

The FY 1987 request includes $21,883,000 in budget authority and 297 FTE's for Federal administration. This is ten below the FTE level authorized in the FY 1986 appropriation for OCSE.

During FY 1987, our staff plans to aggressively pursue a program 1) to continue implmenting the Child Support Enforcement Amendments, 2) to work in partnership with the private sector, 3) to strengthen child support enforcement across State lines, and 4) through automation, to enhance the effectiveness, efficiency, and responsiveness of State child support enforcement efforts.

Legislative Proposals

The FY 1987 budget request for the Child Support Enforcement program includes two legislative proposals. The first would reduce the State and local administrative matching rate from 70 percent to 66 percent, effective FY 1987. Under the second, the enhanced matching rate for ADP systems would be phased out over a three-year period, consistent with similar proposals in other entitlement programs.

The Federal budget proposes to build on the FY 1986 Balanced Budget Act reduction by implementing a reduction to 66 percent for administrative expenses in FY 1987 rather than in FY 1990 as currently scheduled. While lower, the 66 percent matching rate remains generous compared to other entitlement programs. Moreover, States which improve their performance by operating more effectively will be able to qualify for increased incentive funds -- financed entirely by the Federal Government and protected under Gramm-Rudman-Hollings.

Under the ADP legislative proposal, the FY 1986 enhanced rate of 85.69 percent would be reduced to 85 percent in FY 1987, reduced to 75 percent in FY 1988 and FY 1989 consistent with the reduction proposed for this activity in the AFDC program, and in FY 1990 and thereafter matched at the 66 percent prevailing rate for State and local administrative expenses.

The Office of Child Support Enforcement also performs reimbursable work for States. This reimbursable work requires two work years and has an estimated cost of $61,000. This activity is authorized by the Parental Kidnapping Prevention Act of 1980 and involves helping to locate parents with custody of a child in violation of a court order.

Let me conclude by emphasizing the significant effort the Federal, State, and local governments are demonstrating in their endeavor to achieve an improved, efficient, and effective Child Support Enforcement program. Through the continued cooperation of all the parties million of American children will benefit. I appreciate the opportunity to testify before the committee and will answer any questions you may have. Thank you.

REORGANIZATION OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. NATCHER. Earlier this week, the Department announced a major reorganization of the Social Security Administration which surprised many of us. Would you describe for the committee these changes, and tell us when they will become effective?

Mr. SABATINI. The changes announced by Secretary Bowen take the Office of Child Support Enforcement, and the Office of Refugee Resettlement and the Office of Family Assistance from the Social Security Administration, and also the WIN component that exists elsewhere in the Department, and consolidates them into a single organizational entity that is tentatively being called the Family Support Administration.

I believe that we are hoping to start operating with this new organization some time in April.

Mr. NATCHER. What is the main purpose for the reorganization?

Mr. SABATINI. There are several purposes. One, it takes programs that deal with a consistent clientele; customers for all of these programs are very much interrelated. It provides a single organizational focal point within the Department for dealing with and providing services to these people.

The other thing that I think it will do is it will create a single focal point for the States that are partners in the administration of most of these programs, and enable them to deal with one place in the Department on issues that may cross organizational lines.

Mr. NATCHER. What impact will this reorganization have on fiscal year 1987 budget proposals currently pending before the Congress?

Mr. SABATINI. I think it is just too early for me to be able to answer that. I see no significant impact in terms of the budget request. The presentation will have to change, but we will provide more detail for the record.

[The information follows:]

The reorganization announced by the Secretary combines the federal administration of the Assistance Payments, Child Support Enforcement, Low Income Home Energy Assistance, Refugee and Entrant Assistance, Community Services, and Work Incentive programs into a single organizational entity. This operating division, being tentatively called the Family Support Administration, will manage the programs financed through these appropriations within the existing account structure. No budget amendment is anticipated at this time.

Mr. NATCHER. Now, for the record, include a full description of the new organizational structure, and indicate any budget changes which may be necessary. Place that in the record for us.

[The information follows:]

On April 4, 1986, the following notice was published in the Federal Register, describing the new organizational structure:

DEPARTMENT OF HEALTH AND HUMAN SERVICES

FAMILY SUPPORT ADMINISTRATION

Under the authority of Section 6 of Reorganization Plan No. 1 of 1953 and pursuant to the authorities vested in me as Secretary of Health and Human Services, I hereby order organizational changes in the Department of Health and Human Services as follows:

I. ORGANIZATION

A. FAMILY SUPPORT ADMINISTRATION

The Family Support Administration is established as an Operating Division of the Department. The following units are transferred to the Family Support Administration:

1. The Office of Family Assistance from the Social Security Administration
2. The Office of Refugee Resettlement from the Social Security Administration
3. The Office of Child Support Enforcement
4. The Office of Community Services
5. The Work Incentive Program from the Office of the Assistant Secretary for Human Development Services
6. Such other organizational units, or portions thereof, which provide support to the units listed above, as determined hereafter by the Assistant Secretary for Management and Budget. Until such determination has been made and implemented, support for the Family Support Administration shall be provided by the organizations currently providing such support to the units transferred under this order.

B. OFFICE OF CHILD SUPPORT ENFORCEMENT.

The Office of Child Support Enforcement, a separate unit within the Department, shall remain a separate organizational unit, and the Administrator of the Family Support Administration shall be its director.

C. OFFICE OF COMMUNITY SERVICES.

The Office of Community Service, a separate unit within the Department, is transferred to the Family Support Administration.

II. CONTINUATION OF REGULATIONS

Except as inconsistent with this Reorganization Order, all regulations, rules, orders, statements of policy and interpretations with respect to the Social Security Administration, the Office of Child Support Enforcement, the Office for Human Development Services, and the Office of Community Services heretofore issued and in effect prior to the date of this Reorganization Order, or to become effective subsequent to said date, are continued in full force and effect.

III. PRIOR STATEMENTS OF ORGANIZATION, FUNCTIONS, AND DELEGATIONS OF AUTHORITY

A. To the extent inconsistent with this Reorganization Order, all previous statements of organization, functions and delegations of authority, as well as applicable present chapters of the Department's Organization Manual, are hereby superceded by this Reorganization Order, except that pending further redelegation, all delegations to the Commissioner of Social Security pertaining to the Office of Family Assistance and the Office of Refugee Resettlement, to the Assistant Secretary for Human Development Services pertaining to the Work Incentive Program, and to the Director, Office of Community Services are vested with the Administrator, Family Support Administration, with authority to redelegate, consistent with this Reorganization Order and the provisions of the respective delegations.

B. All redelegations of authorities made to the heads of the organizational units transferred by this Reorganization Order and to any other officer or employee of the Department of Health and Human

Services and all further redelegations of such authorities in effect immediately prior to the effective date of this Reorganization Order shall continue in effect pending further redelegation.

IV. FUNDS, PERSONNEL AND EQUIPMENT

Transfer of organizations and functions effected by this Order shall be accompanied in each instance by direct and supporting funds, positions, personnel, records, equipment, supplies and other resources.

Effective date: This Reorganization Order shall be effective April 1, 1986.

The new operating division will manage these programs that assist poor families within the existing appropriations account structure. No budget amendment is anticipated at this time.

GAO REPORT ON QUALITY OF SSA SERVICES

Mr. Natcher. Mr. Sabatini, as I have said on many occasions, this committee considers the Social Security Administration to be one of the most important agencies of the Federal Government. No single agency affects more people in a more positive way.

We were, therefore, very pleased to receive the recent report of the Comptroller General, entitled "Social Security, Quality of Services Rated High by Clients."

We will insert this report in the record at this point, and if you would, please just describe to the committee briefly the results of the study.

[The report referred to follows:]

United States General Accounting Office

GAO

Report to the Congress

January 1986

SOCIAL SECURITY

Quality of Services Generally Rated High by Clients Sampled

GAO/HRD-86-8

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-220960

January 30, 1986

To the President of the Senate and the
Speaker of the House of Representatives

This report shows that Social Security clients generally perceive many services provided by the Social Security Administration (SSA) to be of high quality and as good or better than service they receive from other agencies. This conclusion is based on our nationwide survey of clients of the two largest programs administered by SSA—the Old Age, Survivors, and Disability Insurance Program and the Supplemental Security Income Program.

We conducted this survey to find out what those who had had recent contact with SSA thought of the service they received. In the report, we recommend that SSA periodically survey clients on the quality of SSA service and advise the Congress of the results. Such surveys would give the Congress insight into the impact of SSA's planned staff reduction.

We are sending copies of this report to the Director, Office of Management and Budget, and the Secretary of Health and Human Services.

Charles A. Bowsher

Comptroller General
of the United States

Executive Summary

The Social Security Administration (SSA) touches the lives of millions of Americans. For example, in 1984, SSA paid some $181 billion to more than 40 million beneficiaries and recipients of its two largest programs—Old Age, Survivors, and Disability Insurance (OASDI) and Supplemental Security Income (SSI).

Although there is widespread interest in these programs and how well they serve their clients, little data are available on satisfaction with service. For this reason, GAO surveyed the attitudes of a random sample of OASDI and SSI clients nationwide, asking them to rate certain SSA services, including such specific aspects as employee courtesy, privacy of interviews, clarity of program explanations, and waiting times.

Background

SSA has recognized on several occasions its need for an ongoing mechanism to measure client satisfaction in a uniform, systematic manner. For example, the agency considered such an evaluation tool in 1975, but never implemented it because of higher priorities. A 1978 internal study again recommended that SSA periodically measure the public's perceptions of service but budgetary limitations prevented the recommendation from being carried out.

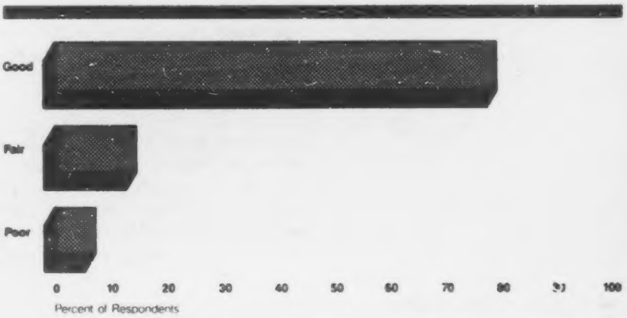
For this survey, GAO sent questionnaires to 1,680 SSA clients, most of whom had recently contacted the agency. In addition to rating certain services they received, they were asked to compare SSA service to that of other government agencies.

GAO's questionnaire did not address client satisfaction with such SSA services as requests for social security numbers and general inquiries. Nor did it gauge the extent to which SSA calculates benefits accurately, processes claims quickly, or manages its operations and programs efficiently and effectively.

Results in Brief

Overall, most respondents gave SSA high marks, rating the service they received as good to very good and better than service from other government agencies. Although most SSI recipients, denied claimants, and the disabled also found SSA service to be good, they rated it lower than did other respondents.

Figure 1: Respondents' Overall Ratings of SSA Service



GAO's Findings

Overall Service Rating High

About 78 percent of SSA clients questioned rated the SSA service they received as good to very good. More than 50 percent rated it as somewhat to much better than service received from other government agencies. Also, about 90 percent said that SSA employees were courteous.

In contrast, only 7 percent rated the service as poor to very poor. But because the SSA programs serve so many Americans, this relatively small percentage represents a large number of dissatisfied clients and could translate into a large problem.

Needy, Disabled, and Denied Less Satisfied

Although most SSA clients rated SSA service favorably, those receiving SSI, the disabled, and denied claimants were less satisfied. For example, 50 percent of denied claimants rated SSA service as good to very good, although about 80 percent of approved claimants rated SSA service as good to very good. Significant differences also were noted between SSI and OASDI clients and between the disabled and nondisabled.

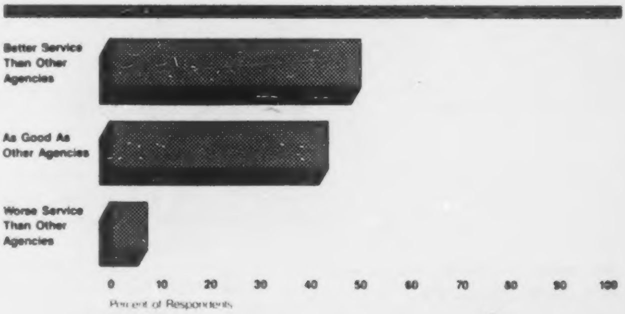


Figure 2: Respondents' Opinions About Service Received From SSA Compared to That of Other Government Agencies

Field Office Visits, Mail, Phone Service Rated

When GAO asked specific questions concerning particular modes of service, GAO learned that, of clients who visited field offices, about 80 percent waited no longer for service than they expected to and 88 percent had enough privacy to discuss their personal business with SSA staff. Most clients who received mail from SSA said they considered it generally easy to very easy to understand; however, about 50 percent of those who received such mail contacted SSA to determine its meaning. Of clients who reached SSA by phone for service, nearly half (47 percent) got through on the first try.

Factors Affecting Service

In any assessment of client satisfaction with SSA, several external factors that make it difficult for SSA to deliver quality service should be considered. For example, SSA administers new, increasingly complex programs. Between 1977 and 1982, 66 laws containing more than 300 provisions requiring SSA action were enacted. Also, SSA has been asked to administer more than 21 types of payments—originally it was responsible for only the retirement benefit. From enactment of the Social Security program through 1982, monthly benefit calculations have undergone 92 changes, each posing administrative challenges to SSA staff.

To complicate matters, SSA's outdated computer systems resulted in increased manual processing of claims, which is more error-prone and labor-intensive. According to an SSA study, manual processing is three times more likely to result in error than is processing by automation.

SSA's Systems Modernization Plan aims to bring the agency's computer systems to a state-of-the-art level to improve client service.

Need for Evaluations

SSA needs to periodically survey its clients to learn their views of its services. Such information would be particularly useful in view of the Administration's proposed multiyear cut in SSA staff of 17,000 positions. The Congress and others have expressed concerns about the impact of such cuts on the quality of SSA service. SSA could use data on client satisfaction to monitor service quality over the coming years.

Recommendation

GAO recommends that SSA conduct periodic surveys of client satisfaction with the quality of SSA's service and advise the Congress on the results. Such surveys would give the Congress and others insight into the effect of SSA's planned staff reduction.

Agency Comments

SSA agreed with GAO's recommendation and said it was developing a proposal for measuring its performance in providing service.

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Abbreviations

GAO	General Accounting Office
HHS	Department of Health and Human Services
OASDI	Old Age, Survivors, and Disability Insurance
SS	Social Security
SSA	Social Security Administration
SSI	Supplemental Security Income

Introduction

On millions of occasions each year, the Social Security Administration (SSA) interacts with the American public— responding to questions about Social Security, processing applications, awarding or denying benefits, and handling changes affecting benefits. For many people, the interaction represents their primary contact with their government and often involves matters crucial to their well-being. Although millions contact SSA by telephone, mail, or in person each year, we found little information on what these clients thought about the service they received.

To learn how SSA clients perceive the quality of services in its two largest programs—Old Age, Survivors, and Disability Insurance (OASDI) and Supplemental Security Income (SSI)—we conducted a nationwide survey. We also analyzed how various demographic and other characteristics influence client perceptions of the programs. The results are presented in this report, which includes as well an overview of the environment in which SSA operates and discussion of internal and external factors that affect SSA's ability to provide quality service.

The term "service" encompasses a variety of agency activities (see p. 16). To give focus to SSA's service mission, in April 1984, the Acting Commissioner announced four goals for SSA:

- To provide timely and accurate payment of benefits,
- To administer the program(s) efficiently and effectively,
- To provide courteous, sensitive, and dignified service to the public, and
- To strive toward a positive work climate for all employees.

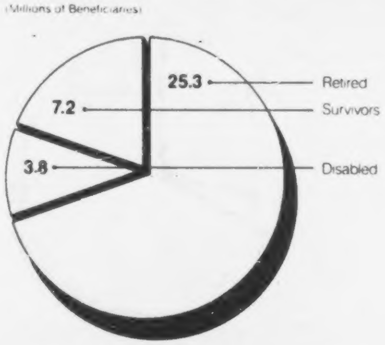
All of these directly or indirectly relate to the quality of service.

Old Age, Survivors, and Disability Insurance

The OASDI program, authorized under title II of the Social Security Act, provides monthly benefit payments to eligible beneficiaries. Payments are based on a worker's earnings in Social Security-covered employment and are designed to replace part of the income that individuals and families lose when workers retire, die, or become disabled.

In fiscal year 1984, SSA paid $173.4 billion in OASDI benefits to about 36.3 million people. Of these beneficiaries, more than 69 percent or 25.3 million were retired workers and their spouses and children (see figure 1.1). Survivors of deceased workers and their dependents numbered 7.2 million and accounted for more than 19 percent of beneficiaries. Disabled workers and their spouses and children totaled 3.8 million or 11 percent.

Figure 1.1: OASDI Payments to Beneficiaries by Type of Benefit (FY 1984)



OASDI beneficiaries included 13.6 million adult males, 19.8 million adult females, and 2.9 million students or children under the age of 18. Retired workers received an average of $443 per month, while the monthly benefit of disabled workers averaged $455.

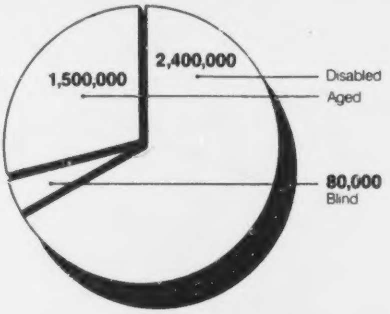
Supplemental Security Income

The SSI program, authorized under title XVI of the Social Security Act, provides financial assistance to eligible beneficiaries—needy aged, blind, or disabled persons. SSI, established in 1974, replaced state-administered public assistance programs and made benefit levels and eligibility requirements uniform nationwide. Monthly cash benefits are financed from general revenue funds managed by SSA.

In fiscal year 1984, SSA paid more than $8 billion in SSI benefits. The roughly 4 million SSI recipients on the rolls at the end of the fiscal year included 2.4 million disabled, 1.5 million aged, and 80,000 blind persons (see figure 1.2). Disabled recipients received an average monthly payment of $233, aged recipients $138, and blind recipients $225.

Figure 1.2: SSI Payments by Type of Recipient (FY 1984)

(Number of Recipients)



Objectives, Scope, and Methodology

Because its programs touch the lives of so many Americans, there is widespread public and congressional interest in Social Security. To find out what clients think about the quality of SSA service, we asked a nationwide sample of SSA clients in November and December 1984 to comment on their contacts with the agency by telephone, by visit, or by correspondence. The survey questionnaire, composed of 44 questions, covered such issues as employee courtesy, waiting times, privacy, clarity of program explanations, overall satisfaction with SSA performance, and comparison of SSA to other government agencies. Through the questionnaire, we also collected data on the methods, frequency, and reasons for contact between SSA and its clients. A final question invited respondents to add to the form any comments they wished about how Social Security had served them. (See app. I for the survey instrument and app. II for the weighted responses, overall, by program, and by disabled/nondisabled status of respondents.)

In developing our survey strategy, we needed to identify a sampling universe of SSA clients who had recent personal contact with SSA—either by phone, visit, or through the mail. Given the size of the OASDI and SSI programs, the only practical way to approach this seemed to be through SSA's computerized data systems.

On the basis of discussions with SSA officials, we identified and used four major systems: (1) OASDI initial claims, (2) OASDI postentitlement actions, (3) SSI initial claims, and (4) SSI postentitlement actions. The initial claims files contain records of applications and approvals of client requests for benefits. The postentitlement files record actions following entitlement, including events that affect benefit amounts, such as marriage, death, and earned income above specified amounts.

Numerous subsystems provide input to these four systems, but not all of the subsystems (or individual actions for that matter) represent client contacts with SSA. On the basis of discussions with SSA personnel, we excluded from our survey these subsystems and actions. Typical of these exclusions are actions that track case-folder movements and SSA interactions with other government agencies such as the Internal Revenue Service to assure the proper recording of employees' earnings to their SSA accounts.

From November 7 to December 7, 1984, we mailed questionnaires to 1,680[1] randomly sampled SSI and OASDI applicants, recipients, and beneficiaries who, based on information contained in the four systems, had contacted SSA in September 1984. Our response rate was 85.2 percent.

We wanted to obtain recent SSA/client contacts because recall of events generally becomes less clear as time passes. Using appropriate statistical formulas for a stratified random sampling design, we estimated the number of clients who in September 1984 contacted SSA. That universe exceeded 2.7 million people. All estimates in this report, unless otherwise noted, reflect responses we would have expected to receive had we sent a questionnaire to all 2.7 million people. Throughout this report, estimates expressed as percentages may not equal 100 due to rounding. (See apps. III and IV for details of our sampling and estimation methodology and the sampling errors for key questions.)

Between November 27, 1984, and January 4, 1985, we also sent questionnaires to a control group of 994 recipients and beneficiaries[2] for whom we had no information concerning a contact with SSA. Our response rate was 85.1 percent.

To assure that our September sample groups were representative of the overall OASDI and SSI population and confirm that our sampling strategy did not introduce biases into responses, we compared responses from the September and control group samples. Generally, we found that differences between the groups' responses to the questionnaire were not statistically significant, thus indicating that our September sample groups were representative. (See app. V for details.)

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[1] 1,680 questionnaires were mailed; undeliverables and deceased individuals reduced the sample to 1,633.

[2] 994 questionnaires were mailed; however, undeliverables and deceased individuals reduced the sample to 965.

Because our approach was necessarily tied to the use of SSA computerized data, we excluded from our survey some important services that SSA provides annually to millions of people. Responses to general inquiries were not included because SSA does not routinely record the name and address of the inquiring person in these cases. Similarly, we eliminated requests for new or replacement Social Security cards because these files lack the mailing addresses we would need for sampling purposes. The addresses are recorded on microfilm and hard copy, but we did not wish to use these sources because of the extensive manual research required.

Other important SSA services not covered by our survey include those where there is no direct interaction between SSA and its clients (e.g., the annual earnings postings, which serve as the basis for computing OASDI benefits). Also, out of consideration for the bereaved, we excluded to the extent practicable individuals who had contacted SSA with regard to a death. Lastly, our survey did not measure the timeliness and accuracy of SSA's benefit computations—an important part of the agency's ongoing tracking system—nor the efficiency of SSA's operations or the effectiveness of its programs.

SSA has a number of well-documented operational problems that our survey instrument was not designed to address. For example, a September 1984 report (GAO/HRD-84-71) disclosed that numerous beneficiary underpayments were not detected by SSA for extended periods of time. On the other hand, a March 1985 report (GAO/HRD-85-12) noted that retired and disabled beneficiaries and their dependents or survivors owed Social Security about $2 billion because they had been paid more than they were entitled. Finally, our survey instrument did not address what is probably SSA's most serious operational problem—its reliance on antiquated computer systems (see p. 21).

Among the various analyses we performed of the data collected, we compared responses by (1) disabled and nondisabled beneficiaries, (2) OASDI and SSI, (3) approved and denied claimants, (4) SSA region, (5) sex, and (6) urban and rural areas.

To supplement the data we collected through our questionnaire, we held discussions with SSA officials at headquarters and in the field. Also, we analyzed past studies and evaluations of SSA's service.

We did not evaluate the accuracy or completeness of SSA computerized records from which we selected our sample cases. These records, which contain demographic information and payment history data on each OASDI beneficiary and SSI recipient, serve as the basis for SSA benefit payments. For our purposes, the records were appropriate because they generally yielded valid names and addresses of OASDI and SSI clients for mail-out questionnaires.

We conducted our work in accordance with generally accepted government auditing standards.

SSA's Operating Environment

For virtually all Americans, SSA touches their lives at some point. They meet the agency as wage earner, retiree, or someone needing financial assistance to make ends meet.

One of the largest agencies in the federal government, SSA employs about 74,000[1] people and has an extensive network of field offices for serving the public. Many services are offered at these field locations; they include informing the elderly, disabled, and poor about their rights to benefits and aiding the dependents of eligible disabled or deceased workers. Because it serves so many people and its programs are complex and constantly changing, SSA must contend on a day-to-day basis with a myriad of problems—many beyond its control.

Types of Services Numerous

Perhaps the first contact most people have with SSA occurs when they receive a Social Security number and card. Since it began operations, SSA has issued more than 270 million Social Security numbers.

Prior to receiving benefits, people may visit or call a local office to check on their earnings record. Also, someone approaching retirement may request a benefit estimate to help decide whether he or she wants to retire, and if so, when. SSA maintains earnings records on 235 million workers, 115 million of them currently in covered employment.

For most, the first significant encounter with SSA is upon application for retirement or disability benefits, for benefits as a survivor of a covered earner, or for SSI payments based on need. Such an encounter starts a process that continues until the applicant receives a notice of award or denial. An applicant whose claim is denied has the right to appeal.

Those whose claims are approved begin receiving monthly checks, entering the postentitlement stage. More than 40.3 million SSA beneficiaries and SSI recipients were receiving checks at the end of fiscal year 1984. During that year, SSA issued to these individuals about 500 million checks. People receiving benefits visit or call SSA if they need assistance, to report a change in beneficiary status, or if they are asked by SSA to contact a field office.

One fairly common contact is to report a change of address. Other calls or visits occur because people lose or do not receive their monthly check on time. Beneficiaries also contact SSA to have benefits recomputed to reflect recent earnings or to ask about the amount of their benefits. Other events that may require contact include marriage, divorce, children's birthdays, school attendance, earnings, other entitlement payments, and death.

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[1] Full-time permanent staff.

People getting monthly checks sometimes receive booklets, pamphlets, notices, and letters from SSA. Recipients of SSI and disability payments may receive notices that require them to contact SSA for a periodic redetermination of eligibility.

People also contact SSA for help with Medicare-related matters. Additional contacts result when SSA processes food stamp applications or provides benefit verification information required by public agencies for low-income applicants who seek energy or subsidized housing assistance.

Contacts—both visits and phone calls—were most often to inquire about an SSA notice or mailing, SSA clients indicated when surveyed. The reasons given for the most recent contact are ranked in order of frequency mentioned by respondents in table 2.1.

Table 2.1: Why People Visit or Call SSA

	Reason	
Ranking	**Visit**	**Call**
1	Inquire about notice/ mail	Inquire about notice/ mail
2	Asked to visit by SSA	Asked to call by SSA
3	Submit retirement claim	Change of name/address
4	Submit disability claim	Inquire about disability claim
5	Change of name/address	Inquire about SSI Claim
6	Submit SSI claim	Inquire about retirement claim
7	Submit survivors' claim	Medicare help

Contacting SSA: Visit, Phone, or Write

Visiting and telephoning SSA were the primary methods of contact; mail was used less frequently (see figure 2.1). Data from clients surveyed on the frequency of the visits, phone calls, and mail contacts appear in table 2.2.

Figure 2.1: Ways in Which Respondents Interacted With SSA

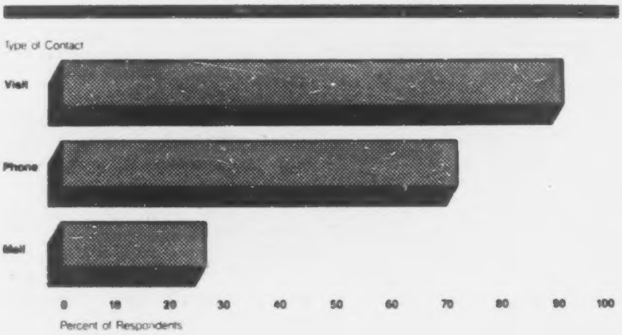


Table 2.2: Frequency of Contacts With SSA

	Type of contact (percent)		
Frequency of respondent contacts	Visit	Phone	Mail
1 time	15	15	33
2 times	22	21	25
3 times	21	20	16
More than 3 times	43	44	26

Our survey results also showed that:

- Of visits to SSA offices, 60 percent occurred before 11 a.m., including 13 percent who arrived before the offices open at 9 a.m.
- For 71 percent of the visits, the total time at the office was less than one hour.
- Fourteen percent of the clients had someone visit an SSA office on their behalf.
- Eighteen percent had someone call SSA on their behalf.
- Eighty percent were on the phone 10 minutes or less during their last call to SSA.
- Of clients in a benefit status, 96 percent usually got their check on time, but one of every four had contacted SSA about at least one late check.
- About 3 of every 10 clients in a benefit status had contacted SSA to ask whether the benefit amount was correct.
- SSI clients contacted SSA more frequently than OASDI clients. For example, 58 percent of SSI clients visited SSA more than 3 times compared to

38 percent for OASDI clients. Also, 50 percent of SSI clients phoned SSA more than 3 times compared to 42 percent for OASDI clients.

- Thirty-seven percent of the most recent visits of SSI clients lasted over an hour compared to 27 percent for OASDI clients.

To provide face-to-face service to its clients, SSA as of September 1985 had about 1,300 district and branch offices, 75 resident stations, and 2,600 contact stations. Essentially all client needs can be met at district and branch offices, which are the heart of SSA service delivery.

Both resident and contact stations are extensions of the district and branch offices and provide many of the same services. Resident stations often lack systems capability; they cannot provide direct input to nor receive direct output from SSA's computerized files. Contact stations, staffed part-time, likewise have no systems capability; typically, they utilize a post office or city hall in a small rural town, which an SSA district or branch office employee visits one day a month. Lastly, when necessary, SSA field representatives visit clients who cannot reach an SSA office or station.

Field offices usually have a reception area for arriving clients set apart from the area for adjudicating claims and processing postentitlement actions. In many offices, signs direct the public on how to get service and a numbering system is used to call clients. Some offices use service representatives as receptionists on a rotating basis to process clients. After leaving the reception area, SSA clients are assisted or interviewed by a claim or service representative. Interviews are conducted in open or partitioned areas. Busy times at field offices generally occur early in the day, early in the week, and early in the month.

To handle telephone traffic, SSA has established 34 independent teleservice centers, primarily in major urban areas. These centers—physically similar to field offices but not open to the public for face-to-face contact—service about 50 percent of the nation's population. For the population not served by teleservice centers, district and branch offices and 32 miniteleservice centers handle the telephone traffic. Minicenters serve clients in one or more districts, and 12 of the 32 provide service to an entire state. In comparison with teleservice centers, the minicenters generally handle smaller traffic volumes and organizationally are considered part of a district office.

SSA Computers Confront Program Complexity

Over the years, the Congress has added new program responsibilities and frequently legislated program changes that make existing programs more complex to administer. Also, SSA depends on antiquated computer systems to process the millions of SSA/client transactions that occur annually. Currently, SSA is in the midst of a major program to computerize field office operations.

Other factors that impede SSA's ability to provide quality service include management of larger caseloads as older Americans represent a larger segment of the population, diversion of resources to carry out judicial mandates, and legislation with short implementation lead times.

Social Security: Growing, Changing

In addition to administering social insurance and welfare programs, SSA operates systems that support other agencies' programs. SSA has had to respond to frequent legislative changes that have substantially broadened the original Social Security Act and enlarged the agency's mission.

The addition of new programs and benefit categories with different eligibility requirements, the increased complexities of benefit computations, and the extension of coverage to additional occupational groups have made it more difficult for SSA to serve the public. Initially, Social Security paid only retirement benefits. Today, there are more than 21 types of benefits. As eligibility has been liberalized, benefit rules have become more complex. For example, there have been 92 changes in the monthly benefit calculation from enactment of the Social Security program through 1982. Also, between 1977 and 1982, 66 laws were enacted containing about 300 provisions requiring SSA action.

These changes have had to be incorporated in SSA's Program Operations Manual System, which contains procedures and instructions for SSA employees. Keeping instructions current is a major task. Field office personnel are inundated by revisions; during a 2-month period, one field office received on average 28 pages of instructions daily, a study estimated.

Training qualified employees to deal with program complexities takes significant time. Before dealing with the public, claims representatives must undergo about 3 months of training in SSA programs, rules, and regulations. Ongoing training is routine for an SSA employee.

Besides administering the OASDI and SSI programs, SSA

- Maintains the federal role in the Aid to Families With Dependent Children program by providing matching grants from general federal revenues to defray a portion of the states' costs. Total payments to about 3.7 million families in fiscal year 1984 were $14 billion, of which $7.7 billion was the federal share.
- Determines Medicare eligibility, issues Medicare cards, maintains the master health insurance record, and handles public inquiries about Medicare, even though administration of the Medicare program was transferred to the Health Care Financing Administration in 1977.
- Administers payments to about 340,000 Black Lung Program beneficiaries and receives about 10,000 claims a year for transfer to the Department of Labor.
- Assists the Department of Agriculture by accepting food stamp applications from SSI recipients and applicants who live in households where everyone receives SSI or is applying for it.
- Administers the program for Low-Income Energy Assistance, which in fiscal year 1984 provided $2 billion to help low-income households offset home energy costs.
- Administers federal funds appropriated to reimburse state and local public assistance programs for refugee assistance.

Also, using its computer telecommunications, SSA performs such supplementary tasks as providing the Internal Revenue Service with annual earnings reports and the Selective Service System with information on draft eligibles.

Systems Modernization Needed

As its computer systems fell behind its program responsibilities, SSA increasingly relied on manual processing. Computer problems that SSA experienced included

- inefficiencies resulting from old software,
- frequent breakdown of equipment and lack of capacity,
- overreliance on magnetic tape, instead of the more modern disks for basic data storage, and
- inadequate telecommunications systems, which created information gaps in SSA files.

Compared with computers, manual processing is more error-prone and labor-intensive. Monthly benefit claims processed manually are more than three times as likely to have an error as claims processed through the automated system, a study by SSA's Office of Assessment shows.

In February 1982, SSA began its Systems Modernization Plan, a multiyear effort to upgrade its computer systems to a state-of-the-art level. Progress has been made, including replacement of many tape files with disk storage and establishment of additional computer support to reduce telecommunications backlogs. But a critical part of the plan—software development—is behind schedule. Completion of the plan will give SSA the systems support needed to ensure better public service. At present, SSA is preparing to go nationwide with the largest segment of the plan—installing the latest computer technology in its field office operations.

Chapter 3

What Clients Think About SSA Service

In the eyes of most Americans who have had a recent contact with SSA, the agency provides quality service to its clients. Clients we questioned said that overall, SSA does a good to very good job, somewhat better than other federal, state, or local agencies they have contacted.

Most OASDI and SSI clients who visited SSA field offices waited no longer than they had expected for service and had enough privacy to conduct their business. Those who visited or reached SSA by phone found SSA employees very courteous and clear in explaining the programs and rules, generally were satisfied to very satisfied with the amount of time it took to complete their business, and believed that SSA did a good to very good job in handling the purpose of the contact.

SSI clients, disabled beneficiaries, and denied claimants, although also generally satisfied, when asked for additional comments, expressed concern about eligibility decisions, erroneous payments, processing of disability claims, and adequacy of benefits for the elderly. Also, while clients found SSA mail generally easy to understand, about half contacted SSA and more than one-third contacted family members or friends to ask what the mail meant. Also, only about half of the clients reached SSA by phone on the first try.

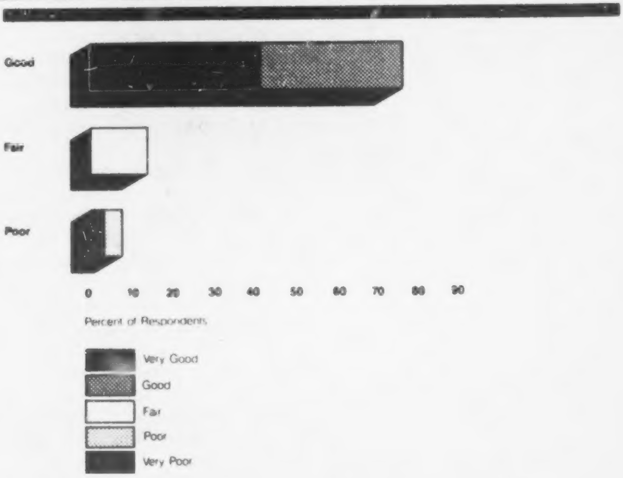
Of our 1,391 respondents, 542 added written comments about SSA services, and of these narratives, 320 were negative. The complaints cited eligibility decisions, insufficient benefits to live on, collection of overpayments, and how long SSA took to make claims decisions—especially disability claims.

In this chapter, we discuss in detail the respondents' overall rankings of SSA services; variations in response by client characteristic, sex, urban/rural location, and SSA region; specific responses concerning visits to field offices, correspondence, and phone contacts; and the nature of the narrative responses.

SSA Scores High in Clients' View

About 78 percent of SSA clients rated SSA's service as good to very good. About 7 percent said SSA did a poor or very poor job. Because the SSA programs serve more than 40 million individuals, however, a relatively small percentage of unsatisfied clients can translate into a large problem. For example, the 7 percent who rated SSA service as poor represent a large number of dissatisfied clients. Figure 3.1 shows specific ratings.

Figure 3.1: Respondents' Overall Ratings of SSA Service



Clients who had visited or phoned SSA found SSA employees courteous, said programs and rules were explained clearly and that SSA did a good to very good job of handling their business, and generally were satisfied to very satisfied with how long SSA took to resolve their business. Figures 3.2 through 3.5 give specifics on these responses.

Figure 3.2: Respondents' Opinions About the Courtesy Displayed by SSA Employees

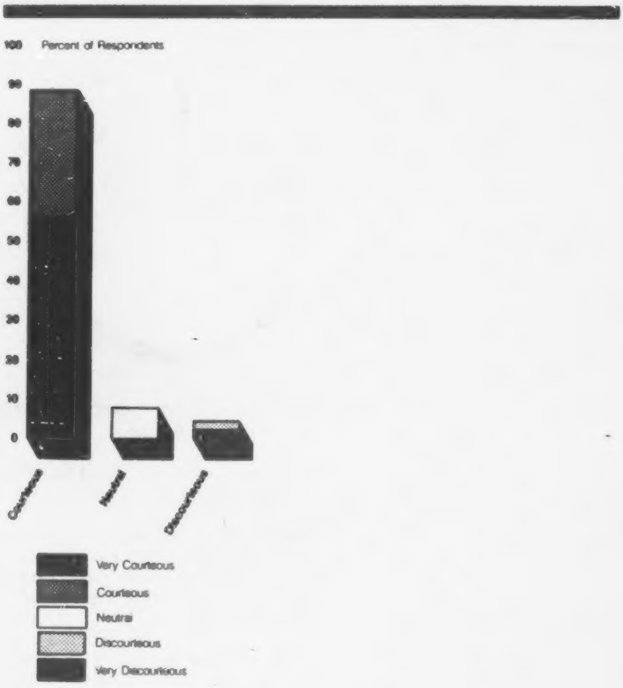
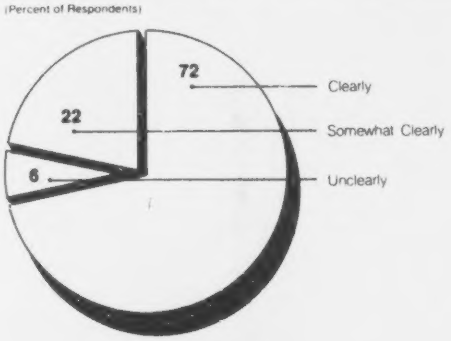


Figure 3.3: Respondents' Opinions About the Way in Which Programs and Rules Were Explained



Among the voluntary narrative comments were 222 positive remarks on SSA service, among them:

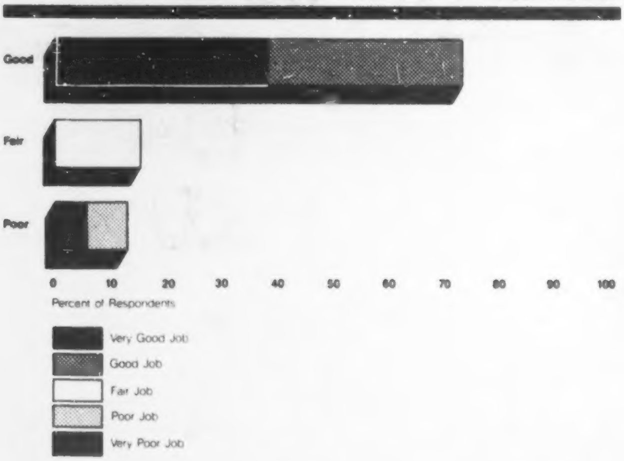
"They treated me very nice. I felt like a first-class citizen when I left"—a 58-year-old disabled male beneficiary from California.

"My contact with local SS office has been worthwhile for information purposes, all times having been received courteously and competently . . . I consider that the SSA handles their workload in a very proficient manner for the number of accounts they service"—a 70-year-old male OASDI beneficiary from North Carolina.

"I applied for SS and SSI in August this year. By the end of October I knew I was qualified. By the middle of November, I had a check. They were very kind, courteous, and understanding."—a 31-year-old disabled female beneficiary from Indiana.

"Social Security has always been fair and courteous to me. Dealing with the elderly can be trying at times but they never seem to lose patience . . . ."—an 81-year-old female SSI recipient from Oregon.

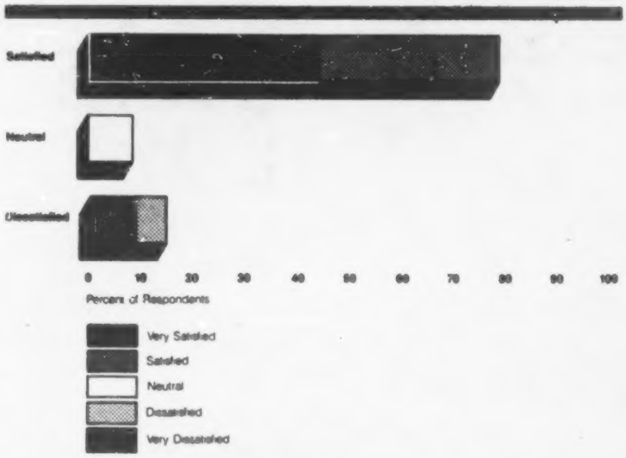
Figure 3.4: Respondents' Opinions About the Type of Job SSA Did in Handling Their Business



"All of Social Security employees here at the . . . branch are very courteous people. You are not kept waiting unnecessarily long. We know that it takes some time for we are not the only participants of the Social Security program."—a 47-year-old female SSI recipient from Alabama.

We also asked respondents how SSA compared with other federal, state, or local agencies that had provided them service. Fifty-one percent rated SSA service somewhat to much better than that of other agencies, while an additional 43 percent rated SSA service as good. Figure 3.6 shows overall results.

Figure 3.5: Respondents' Satisfaction With the Amount of Time Taken by SSA to Resolve Their Business



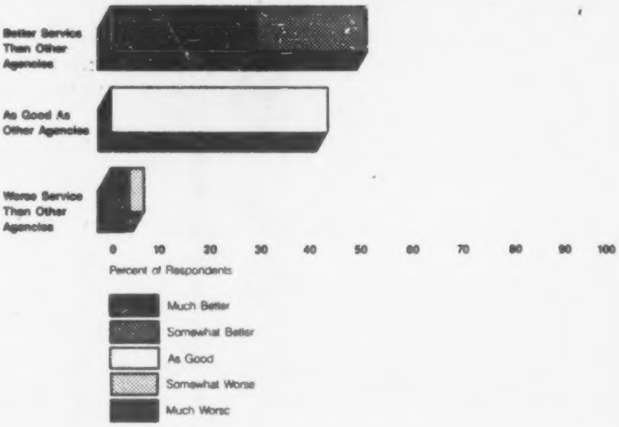
Comparison comments included the following:

"I find that the federal social security is very good. The State (SSI) Department is fair to good."—a 72-year-old female SSI recipient from California.

"Very pleased with the personnel and service of my local office. Questions answered and follow thru on problems in a courteous fashion. Not like our state agencies where you're made to feel like you're a ward of the state and are trying to cheat them."—a 56-year-old disabled male beneficiary from New Mexico.

"Social Security gives much better service than OPM that handles federal employees' retirement benefits."—62-year-old OASDI male beneficiary from Massachusetts.

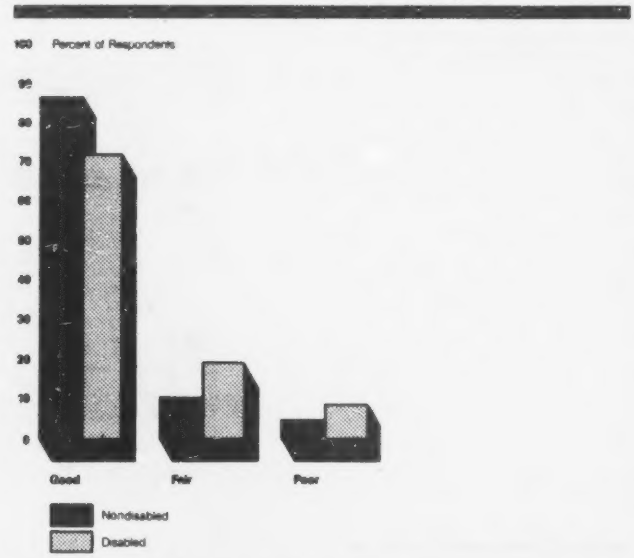
Figure 3.6: Respondents' Opinions About Service Received From SSA Compared to That of Other Government Agencies



Service Perceptions Vary by Client Characteristics

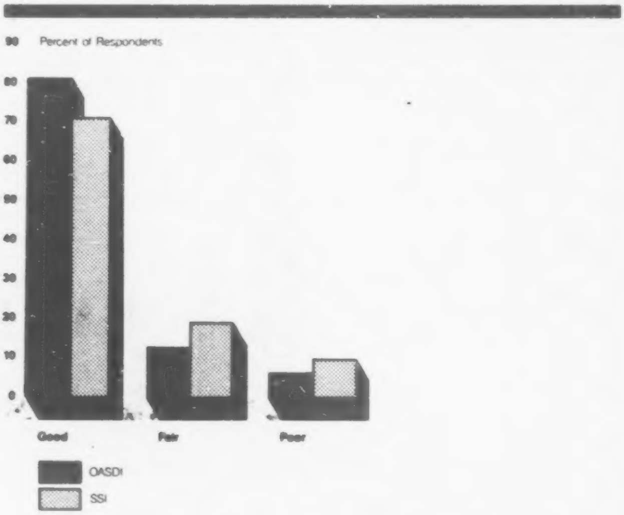
Statistically significant differences in opinions of SSA service were noted between (1) disabled and nondisabled beneficiaries, (2) OASDI and SSI participants, and (3) approved and denied claimants. Figures 3.7, 3.8, and 3.9 show differences for the overall ratings, which we further discuss below.

Figure 3.7: Respondents' Overall Opinions About SSA Service by Disability Status



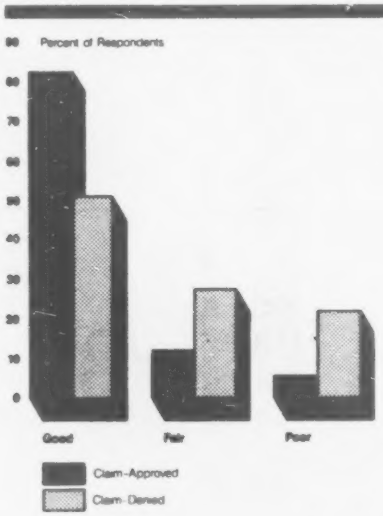
Compared with their counterparts, SSI clients, disabled beneficiaries, and denied claimants said that they had somewhat less privacy than they needed and were less satisfied with the time it took to handle their business and that SSA employees were somewhat less courteous. For example, 4 of every 10 SSI clients waited 30 minutes or more to be served and were at the office more than 1 hour, according to their responses. In contrast, 3 of every 10 OASDI clients claimed waits of 30 minutes or more. Also, 26 percent of SSI clients, compared to 20 percent of OASDI clients, considered the wait longer than expected.

Figure 3.8: Respondents' Overall Opinions About SSA Service by Program Participation



The reason that SSI clients perceived longer waiting times, according to an SSA headquarters official, could be that SSI clients sometimes are required to file a corresponding claim to determine entitlement to OASDI benefits. This means they may be rerouted to the reception area until a claims representative is free to process the second application. In our opinion, the additional wait for a second interview may have been considered when clients answered the question.

Figure 3.9: Respondents' Overall Opinions About SSA Service by Claim Status



More than 84 percent of nondisabled beneficiaries were satisfied to very satisfied with the time SSA took to handle the purpose of the visit. Among disabled beneficiaries, the satisfaction rate was 69 percent.

Perceptions of disabled beneficiaries may be somewhat misdirected, causing SSA to bear the brunt of their dissatisfaction. For instance, SSA took an overall average of 74 days to process disability claims during fiscal year 1984. However, on the average, 53 of these days were used by state Disability Determination Services, which accumulate medical evidence needed to process the claims.

SSI clients, disabled beneficiaries, and denied claimants also found mail from SSA more difficult to understand and contacted SSA more often to get the mail explained than did their counterparts. For example, 23 percent of denied claimants said SSA mail was generally difficult to very difficult to understand; 12 percent of approved claimants perceived SSA mail similarly.

Other Response Variables

We also analyzed the questionnaire responses to determine if there were any significant differences in responses based on (1) sex, (2) residence (urban/rural), and (3) SSA region. Our analyses disclosed no statistically significant differences based on sex or residence,[1] but we did find some differences in responses among SSA regions, as illustrated in table 3.1.

Table 3.1: Respondents' Overall Ratings of SSA Service by Region

	Rating of SSA service (percent)				
SSA region	**Very good**	**Good**	**Fair**	**Poor**	**Very poor**
1. Boston	47	32	12	5	4
2. New York	43	41	10	3	3
3. Philadelphia	51	33	10	3	3
4. Atlanta	43	37	12	4	4
5. Chicago	42	37	14	4	3
6. Dallas	38	32	22	4	4
7. Kansas City	37	42	15	2	4
8. Denver	30	51	18	1	0
9. San Francisco	38	35	20	4	3
10. Seattle	52	29	9	5	5
Average rating	**42**	**36**	**15**	**4**	**3**

Using the combined good and very good categories to indicate a high rating and the combined poor and very poor categories to indicate a low rating, one of the highest rated regions was Denver—with a combined rating of 81 percent in the good and very good categories and a 1-percent combined rating for the poor and very poor categories. By comparison, Dallas was the lowest rated region with a combined rating of 70 percent for the good and very good categories and 8 percent for the poor and very poor categories.

Visits to an SSA Field Office

As noted earlier in this chapter, SSA clients said they generally received good service during visits to SSA field offices. To supplement this information, we asked questions dealing specifically with service in a field office setting.

First, we asked the clients whether the waiting area contained enough chairs to accommodate everyone waiting. Seven percent said there were not enough chairs. According to time-of-arrival data we collected, 60 percent of the people who visited an SSA office arrived before 11 a.m., including 13 percent who arrived before the offices opened at 9 a.m.

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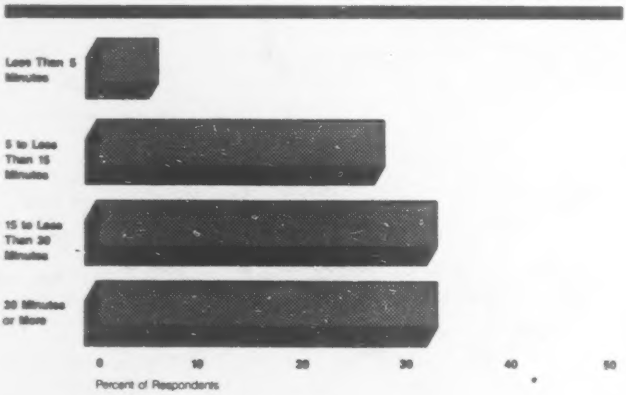
[1] A population of 25,000 was used to distinguish between urban and rural areas.

Long lines frequently are mentioned as an example of deterioration in SSA service. Accordingly, we asked clients how long they had to wait for service. Roughly a third were served in less than 15 minutes, but about another third waited 30 minutes or more. Waiting times are shown in figure 3.10.

Figure 3.10: Respondents' Estimates of Amount of Time Waited at an SSA Field Office Before Being Served



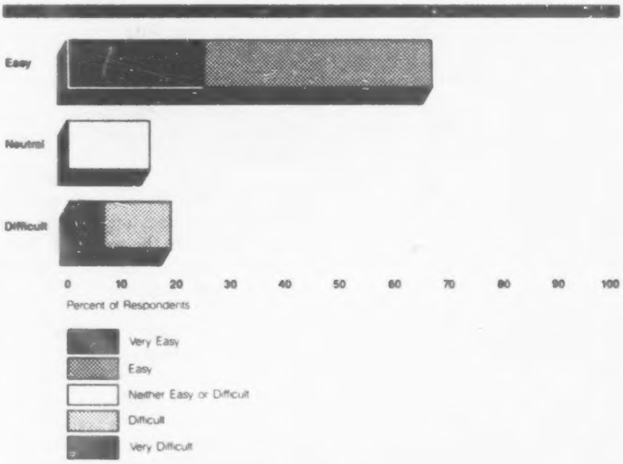
We also asked those who visited whether the length of their wait was what they expected. About half said it was; 21 percent said it was longer than expected; for 30 percent, it was shorter.

Because clients commonly must discuss income, home environment, medical condition, and other personal information in SSA offices, we asked our respondents if they had enough privacy to discuss their business. Eighty-eight percent said they had enough or more than enough; 12 percent contended they had less than enough.

Mail to Clients

Most clients who received mail from SSA considered it to be generally easy to very easy to understand; about 18 percent viewed it as generally or very difficult to understand. How SSA clients rated the understandability of SSA mail is shown in figure 3.11.

Figure 3.11: Respondents' Opinions About the Understandability of SSA Mail



Although most thought SSA mail understandable, about 50 percent of those who received such mail contacted SSA to determine its meaning.

We briefly analyzed a variety of SSA mail and found most of it—pamphlets, brochures, etc.—fairly easy to understand. But the readability of SSA notices, which provide information on changes in benefit amount and reasons for entitlement, has been a long-standing problem. According to field office managers we interviewed, the poor readability of notices causes additional walk-in traffic. One district manager, saying SSA notices have been a well known problem, asserted that they are too long and complicated for the public to understand.

None of our respondents specifically complimented the readability of the notices, and 14 commented negatively, e.g.:

". . . The Notices we receive from the SSA . . . are sometimes mind boggling. The second or third paragraph of some of these 'cryptograms' (for want of a better word) sometimes completely negate what was laboriously 'spelled out' in the first paragraph . . ."

". . . I have visited the Social Security office many, many times to try to get all these overpayment situations taken care of. Sometimes the workers have gotten smart with me but I don't think I deserve that kind of treatment just because I don't understand what is happening with this stack of notices I have gotten."

". . . I visited the office for help in clarifying obfuscated, tenebrific, tautologic, opaque government prose in some of Social Security's written replies to simple questions."

In an April 1984 Bulletin, SSA's Acting Commissioner included the issuance of clear notices among eight objectives aimed at providing a high level of service to the public. SSA established the Issue Clear Notices Project, which was designed to study notice problems and develop short- and long-term solutions.

Because notice clarity constitutes a significant problem, in a previous study we took a more in-depth look into SSA plans for improving it. On August 29, 1985, we concluded in a report to the SSA Acting Commissioner that the project had made reasonable progress and was likely to improve SSA notices. The report recommended that SSA obtain periodic feedback from notice recipients and use it to evaluate SSA progress in improving and maintaining notice clarity.

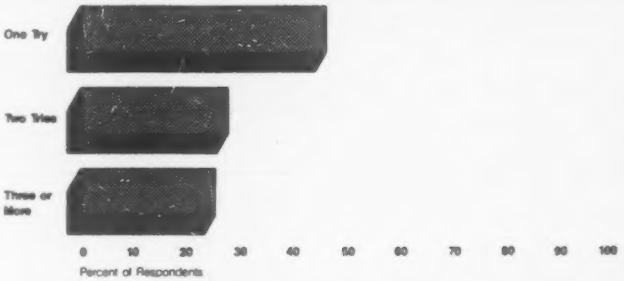
Phone Service

About 47 percent of clients who reached SSA by phone got through on the first try, 28 percent had to call twice before they got through, and 25 percent had to call 3 or more times (see figure 3.12). Callers who made multiple attempts experienced one or more of the following situations on at least one occasion:

- No one answered—about 22 percent,
- Received a busy signal—about 60 percent,
- Were put on hold and eventually hung up after waiting for service—about 17 percent, or
- Were disconnected after reaching SSA—about 8 percent.

(These percentages add up to more than 100 because some respondents had more than one experience in reaching SSA by phone.)

Figure 3.12: Number of Tries It Took Clients to Reach SSA by Phone



A sampling of respondents' narrative comments follows:

"When you phone they put you on hold for 10-15 minutes till you hang up."

"Usually when contacting Social Security by phone, I am told I need to visit the office . . ."

"Went back to work full time. Wanted to withdraw from Social Security payments. Social Security could not find words to explain over the phone."

"Main complaint was could not talk to the same person when you would call back. Must explain same thing to a different person each time you call."

Most field office managers we interviewed concurred that walk-in traffic increases when the public is unable to reach SSA by phone. For example, a February 1982 study in SSA's Philadelphia Region showed that about 15 percent of those surveyed elected to visit field offices because SSA phones were always busy.

Effective phone service is an important element of SSA service. For this reason, we have underway a separate evaluation of SSA telephone service.

Respondents' Narrative Comments

Comments on dealing with SSA that our respondents added to our questionnaires centered around such concerns as: eligibility decisions, erroneous payments, lengthy processing of disability claims, and insufficient benefits for the elderly..

Of 542 narrative comments about SSA from the September and control samples, 320 were negative. The comments covered the following issues:

- Eligibility and appeals (63),
- Amount, timeliness, and accuracy of benefit (53),
- Telephone and written communications (34),
- Timeliness of processing disability claims (18),
- More than one of the above (39), and
- Other than above (113).

The concerns expressed by questionnaire respondents closely parallel some of the issues that compel clients to contact SSA or the Congress. SSA's Office of Governmental Affairs maintains statistics on public inquiries received by SSA or through congressional channels. The volume of such inquiries by subject for calendar year 1984 is shown in table 3.2.

Table 3.2: Public Inquiries to SSA (1984)

Subject	Congressional	Direct to SSA	Total
Disability Insurance	18,627	14,042	**32,669**
OASDI	8,936	13,028	**21.964**
Hearings and appeals	19,444	12,988	**32,432**
SSI	3,918	5,576	**9,494**
Other	19,277	43,412	**62,689**
Total	**70,202**	**89,046**	**159,248**
Percent of total	44	56	

These totals do not include congressional inquiries received and handled by SSA field components, which processed more than 57,000 congressional inquiries from July through September of 1984. Between fiscal years 1978 and 1983, field components handled about 983,000 congressional inquiries.

The nature of these 1984 inquiries to the Congress and SSA can be summed up as follows:

- Disability Insurance—Questions about claims at the initial, postentitlement, and reconsideration levels and about continuing disability reviews accounted for more than 70 percent of the disability inquiries. Delay in processing claims also was an issue.
- OASDI—General and postentitlement questions prompted most inquiries. Questions about the retirement test, initial claims, and nonreceipt of checks were the subject of other inquiries.

- SSI—The nature of inquiries about this program paralleled those for Disability Insurance.
- Other—Health insurance, individual earnings records, issuance of Social Security numbers, and individual requests to withdraw from Social Security coverage prompted many inquiries.

SSA Monitoring of Client Perceptions Needed

There have been recent expressions of concern from the Congress, SSA personnel, and clients that the quality of SSA service may be declining. Administration proposals to cut SSA staff by 17,000 full-time equivalent positions and the belief that SSA might close a large number of field offices increased these concerns and led to congressional hearings on the subject on April 3, 1985. While the agency denies that service has deteriorated, it recognizes the need to survey client attitudes to measure how well it is performing its important and highly visible public service role. To date, SSA has not developed a uniform, systematic way to evaluate client satisfaction.

Our questionnaire results provide useful data for SSA analysis. SSA can design a similar data collection instrument to obtain periodically client opinions of SSA service and to measure changes in perception of service over time. Such a tracking system would help the agency identify and respond to problem areas and perceived changes in service levels.

In this chapter, we cover the above matters in some detail, present our conclusions and recommendations, and note comments by HHS on our draft report.

Is SSA Service Deteriorating?

Focusing on public concerns over a possible decline in SSA service, the Senate Special Committee on Aging held hearings in November 1983. The following quotations from testimony illustrate some of the opinions expressed at that occasion:

"... there has been a deterioration in public service that I have witnessed personally in this agency."—the Deputy Commissioner for Operations.

"... Essentially, the deterioration of public service in Social Security is the erosion of the rights of the individual citizens ..."—a claims representative, appearing on behalf of a union.

"... I have worked for this Administration for 10 years and I have seen the decline of public service ..."—another claims representative, who was a union president.

With respect to proposed SSA staffing cuts, a representative of the American Association of Retired Persons testified on April 3, 1985, before the Social Security Subcommittee, House Ways and Means Committee:

> ". . . SSA staff levels have been steadily reduced every year since 1977. During this period, the quality of SSA service has suffered a steady deterioration . . ."

At this 1985 hearing and others, SSA has steadfastly held that SSA service is not declining—and will not decline if staff is cut by 17,000.

Client Satisfaction a Recognized Indicator of Agency Performance

SSA has recognized that its clients' viewpoints are important indicators of its performance and that there is a need to survey them to measure how well the agency is performing its public service role. In 1975, SSA considered but rejected a program that would gather data on consumer attitudes by geographic region, program, and type of transaction and identify reasons for public dissatisfaction. In February 1978, after what seemed to be increasing criticism of its service, SSA's Acting Commissioner ordered an assessment to identify any problems. The report on the assessment noted that SSA measured speed and accuracy in a variety of ways, but not client satisfaction. That SSA should expedite implementation of a nationwide client satisfaction survey was the report's recommendation.

In April 1978, the Acting Commissioner issued an executive summary entitled "A Comprehensive Mechanism of Measuring Clients' Perceptions of the Quality of Social Security Service." An uncontestable conclusion, it said, was that SSA had no mechanism to provide a continuing, uniform, objective, and comprehensive assessment of how the public felt it was being served when it needed to contact SSA. According to SSA officials, the initiative was not implemented because of budgetary limitations.

SSA Region III in 1982 surveyed public perception at field offices in the region. Other efforts have been made, primarily at the regional and field office levels, through informal surveys of beneficiaries. But basically, prior SSA assessments of public opinion have been done on an ad hoc basis. No uniform, systematic approach has been taken.

In 1984, SSA's Acting Deputy Commissioner for Management and Assessment commented on our draft questionnaire as follows:

> "It is important for us to be aware of the public's perception of the quality of service we in SSA provide. Your questionnaire should provide SSA with useful information on our contacts with the public. In view of the Commissioner's emphasis on renewing our commitment to traditional SSA goals and

administrative responsibilities, it is appropriate to conduct an inquiry of this type."

At the 1985 congressional hearings (discussed in the next section), the Acting Commissioner testified that measuring service quality was difficult, but cited efforts that SSA made.

Despite recognizing the importance of the clients' viewpoints as indicators of performance, SSA has not developed a uniform and systematic approach to collecting client perceptions of service.

Congressional, Public Interest Renewed by 1986 Budget Proposal

The President's fiscal year 1986 budget request announced SSA staff reductions of 17,000 through fiscal year 1990. According to SSA, these reductions can be accomplished through attrition rather than a reduction in force, with no adverse effect on service to the public. SSA says its Systems Modernization Plan will be instrumental in providing faster and more efficient service to the public.

In the wake of this budget proposal, the Subcommittee on Social Security, House Committee on Ways and Means, held hearings on April 3, 1985. The Subcommittee Chairman indicated that this was the first of what will be an extensive series of oversight hearings into the quality of SSA service to its clients.

At the April 3rd hearings, the Subcommittee expressed concerns as to whether SSA could make the cutbacks without significant deterioration of public service. A spokesman for the American Association of Retired Persons, which represents 18 million older Americans, also voiced apprehension. He testified that many beneficiaries already drive long distances to get to their local SSA office. When they get there, they encounter long lines, long waiting periods, and insufficient staff.

This charge of insufficient staff may arise to some extent from a recent situation concerning claims representatives, whose work is crucial to SSA's dealings with its clients. Between fiscal years 1982 and 1984, their numbers fell from 14,154 to 13,699. Formerly, SSA filled vacancies in these positions with new hires, who passed a federal exam. Now, recruits for the claims representative position usually come from SSA's clerical and technical staff. As a result, some field offices have experienced a shortage of clerical staff. On occasion, clients must wait for service while claims representatives complete clerical work formerly handled by clerical staff.

SSA's plans to trim 17,000 staff are further complicated by indications that SSA will be managing larger caseloads. Between 1982 and 1984, numbers of OASDI and SSI clients increased by more than 800,000—from 39.5 to 40.3 million. By 1990, because of increased birth rates and longer life expectancies, SSA expects the number of OASDI beneficiaries to increase by another 11 percent.

Survey Data Seen Useful to SSA

SSA could use the data in this report as a baseline to measure any change in client attitudes toward overall SSA service and such specific aspects as employee courtesy. For example, our geographic analysis of overall ratings of service by SSA region (see p. 34) showed a range from a low of 70 percent of clients perceiving SSA service as good to very good in Region VI to a high of 84 percent of such clients in Region III. Obtaining and analyzing such information is a useful first step in improving SSA service. Through our questionnaire, we also obtained measurable data on client views on visiting and phoning SSA. Such data could indicate whether staff reductions are affecting service.

The questionnaire results also provided insight into the method of contact people would prefer if they needed future assistance from SSA. For example, of clients who responded, more than 51 percent identified the telephone as a first preference for future contact with SSA, while 45 percent preferred face-to-face contact first. Phone preference ranged from a low of 36 percent in SSA Region II to a high of 64 percent in SSA Region X. Interestingly, 16 percent of the clients did not know SSA handled Social Security business over the phone. Of those who did, 24 percent were unaware that almost all Social Security business can be handled by phone. Information of this nature, tracked over time, could prove useful in determining whether SSA is well organized in terms of telephone and field office support and is adequately informing the public about using the telephone to conduct Social Security business.

Lastly, SSA could modify the questionnaire to include other service features. The client could be asked to estimate the distance and time to reach a field office for his or her most recent visit in comparison to earlier visits. Such information was compiled earlier in a survey of 1,502 people aged 55 and over sponsored by the American Association of Retired Persons and the National Retired Teachers Association. Their November 1981 report noted that about one-third of the 870 respondents who visited a field office got there in less than 15 minutes, and more than 8 of every 10 traveled less than 20 miles to reach the office.

Such data could prove important to SSA in assessing the impact that field office closings would have on public perceptions of SSA service.

During testimony on April 3, 1985, before the Subcommittee on Social Security, House Committee on Ways and Means, we voiced concern about the possible adverse impact on SSA service of planned staff cuts and potential office closings. We indicated that, in addition to routinely tracking payment accuracy and timeliness of claims processing, SSA should regularly measure clients' satisfaction. Such a survey would give SSA useful data on any changes in quality of service occurring over the remaining 5-year life of the staff reduction plan.

Conclusions

As a highly visible, important government agency, SSA seeks to ensure that its clients receive dignified, sensitive, and courteous help with their concerns. Although in the past, SSA has recognized the need to periodically assess client satisfaction with its service, it has not conducted agency-wide, systematic, ongoing evaluations of client's perceptions of its service.

The administration's fiscal year 1986 budget calls for significant staff reductions. SSA believes such reductions can be achieved through its Systems Modernization Plan and other initiatives without damage to service. The Congress is interested in how SSA carries out the administration's budget reduction plans, seeking assurances that the level of service provided to the elderly and disabled will not be seriously reduced.

We believe that, by properly assessing public satisfaction, SSA can give the Congress feedback about the effects of any budget cutbacks. The data developed from our questionnaire establish a base line from which SSA could evaluate its service and assess any impact of staff reductions. Periodic assessment of public opinion can help SSA to identify any problem areas and declining service levels.

SSA will incur increased costs in periodically measuring client satisfaction. Given the magnitude and importance of SSA programs, however, these costs would appear to be justified.

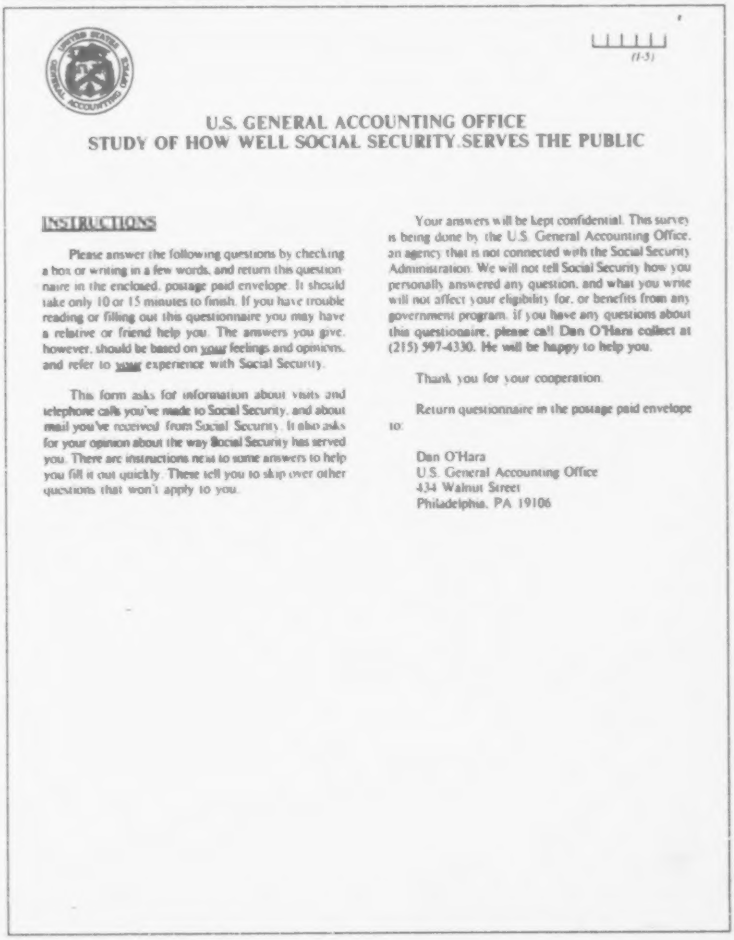
Recommendation to the Secretary of HHS

We recommend that the Secretary of HHS direct the Commissioner of Social Security to conduct periodic surveys of client satisfaction with the quality of SSA service and advise the Congress of the results.

Agency Comments

In commenting on a draft of this report, HHS agreed that periodic surveys of client perceptions of the quality of SSA service should be conducted and the results reported to the Congress. HHS said SSA has begun developing a proposal for measuring its performance in providing service.

GAO Survey Questionnaire



☐☐☐☐☐
(1-5)

U.S. GENERAL ACCOUNTING OFFICE
STUDY OF HOW WELL SOCIAL SECURITY SERVES THE PUBLIC

INSTRUCTIONS

Please answer the following questions by checking a box or writing in a few words, and return this questionnaire in the enclosed, postage paid envelope. It should take only 10 or 15 minutes to finish. If you have trouble reading or filling out this questionnaire you may have a relative or friend help you. The answers you give, however, should be based on your feelings and opinions, and refer to your experience with Social Security.

This form asks for information about visits and telephone calls you've made to Social Security, and about mail you've received from Social Security. It also asks for your opinion about the way Social Security has served you. There are instructions next to some answers to help you fill it out quickly. These tell you to skip over other questions that won't apply to you.

Your answers will be kept confidential. This survey is being done by the U.S. General Accounting Office, an agency that is not connected with the Social Security Administration. We will not tell Social Security how you personally answered any question, and what you write will not affect your eligibility for, or benefits from any government program. If you have any questions about this questionnaire, please call Dan O'Hara collect at (215) 597-4330. He will be happy to help you.

Thank you for your cooperation.

Return questionnaire in the postage paid envelope to:

Dan O'Hara
U.S. General Accounting Office
434 Walnut Street
Philadelphia, PA 19106

PART I
MAIL TO AND FROM SOCIAL SECURITY

1. Have you ever written to Social Security? *(Check one.)* *(6)*

   1. ☐ Yes → *(Continue.)*
   2. ☐ No → ***(Skip to Question 3.)***

2. If you have written to Social Security, about how many times in all have you written? *(Check one.)* *(7)*

   1. ☐ 1 time
   2. ☐ 2 times
   3. ☐ 3 times
   4. ☐ More than 3 times

3. Often Social Security contacts people by mail to give or ask for information. Have you ever received mail, other than a benefit check, itself, from Social Security? *(Check one.)* *(8)*

   1. ☐ Yes → *(Continue.)*
   2. ☐ No →***(Skip to Question 8.)***

4. In general, is the mail you've received from Social Security written in a language that you can read? *(Check one.)* *(9)*

   1. ☐ Yes
   2. ☐ No

5. In general, how easy or difficult to understand is the mail you've received from Social Security? *(Check one.)* *(10)*

   1. ☐ Very easy to understand
   2. ☐ Generally easy to understand
   3. ☐ Neither easy nor difficult to understand
   4. ☐ Generally difficult to understand
   5. ☐ Very difficult to understand

6. Have you ever contacted, or thought about contacting Social Security to find out what the mail you'd received from them meant? *(Check one.)* *(11)*

   1. ☐ Yes, I've contacted them
   2. ☐ Yes, I've thought about it, but haven't contacted them
   3. ☐ No, I haven't contacted, or thought about contacting them

7. Have you ever contacted, or thought about contacting either family or friends to ask them what the mail you'd received from Social Security meant? *(Check one.)* *(12)*

1. ☐ Yes, I've contacted them
2. ☐ Yes, I've thought about it, but haven't contacted them
3. ☐ No, I haven't contacted, or thought about contacting them

PART II
VISITS TO THE SOCIAL SECURITY OFFICE

8. Have you ever visited a Social Security office? *(Check one.)* *(13)*

1. ☐ Yes → *(Continue.)*
2. ☐ No → ***(Skip to Question 22.)***

9. About how many times in all have you visited a Social Security office? *(Check one.)* *(14)*

1. ☐ 1 time
2. ☐ 2 times
3. ☐ 3 times
4. ☐ More than 3 times

QUESTIONS 10 THROUGH 21 ARE ABOUT YOUR LAST VISIT TO THE SOCIAL SECURITY OFFICE. PLEASE ANSWER THEM ABOUT THAT VISIT ONLY. IF YOU'VE NEVER VISITED A SOCIAL SECURITY OFFICE, ***SKIP TO QUESTION 22.***

10. **About how long ago did you last visit the Social** Security office? *(Check one.)* *(15)*

1. ☐ Within the last 3 months
2. ☐ At least 3 but less than 6 months ago
3. ☐ At least 6 but less than 9 months ago
4. ☐ At least 9 but less than 12 months ago
5. ☐ 12 months ago or more

11. Listed below are several reasons why a person might visit the Social Security office. Indicate whether or not your **last** visit had something to do with each. *(Check one box for each row.)*

	Yes	No	
	1	2	
1. You filed a claim for retirement benefits	☐	☐	*(16)*
2. You filed a claim for disability benefits	☐	☐	*(17)*
3. You filed a claim for survivors benefits	☐	☐	*(18)*
4. You filed a claim for Supplemental Security Income (SSI) benefits	☐	☐	*(19)*
5. You asked for help concerning Medicare	☐	☐	*(20)*
6. You asked about a notice or other mail you'd gotten from Social Security	☐	☐	*(21)*
7. You notified Social Security of a name or address change	☐	☐	*(22)*
8. Social Security asked you to contact them	☐	☐	*(23)*
9. You visited the office for some other reason *(Please specify.)* ____________________ ____________________ ____________________ ____________________	☐	☐	*(24)*

12. About what time did you get to the Social Security office that day? *(Check one.)* *(25)*

   1. ☐ Before 9 AM/before it opened
   2. ☐ 9 AM to before 11 AM
   3. ☐ 11 AM to before 1 PM
   4. ☐ 1 PM to before 3 PM
   5. ☐ 3 PM to before 5 PM
   6. ☐ At 5 PM or later

13. We would like to know how crowded or empty the Social Security office waiting area was. Was there room for everyone to sit in a chair during most of the time you were there? *(Check one.)* *(26)*

   1. ☐ Yes
   2. ☐ No

14. About how much time did you spend waiting to be helped at the Social Security office that day? *(Check one.)* *(27)*

   1. ☐ Less than 5 minutes
   2. ☐ 5 to less than 15 minutes
   3. ☐ 15 to less than 30 minutes
   4. ☐ 30 minutes or more

15. Considering the reason for your visit and the number of people there waiting to be helped, was your wait longer than, about as long as, or shorter than you expected? *(Check one.)* *(28)*

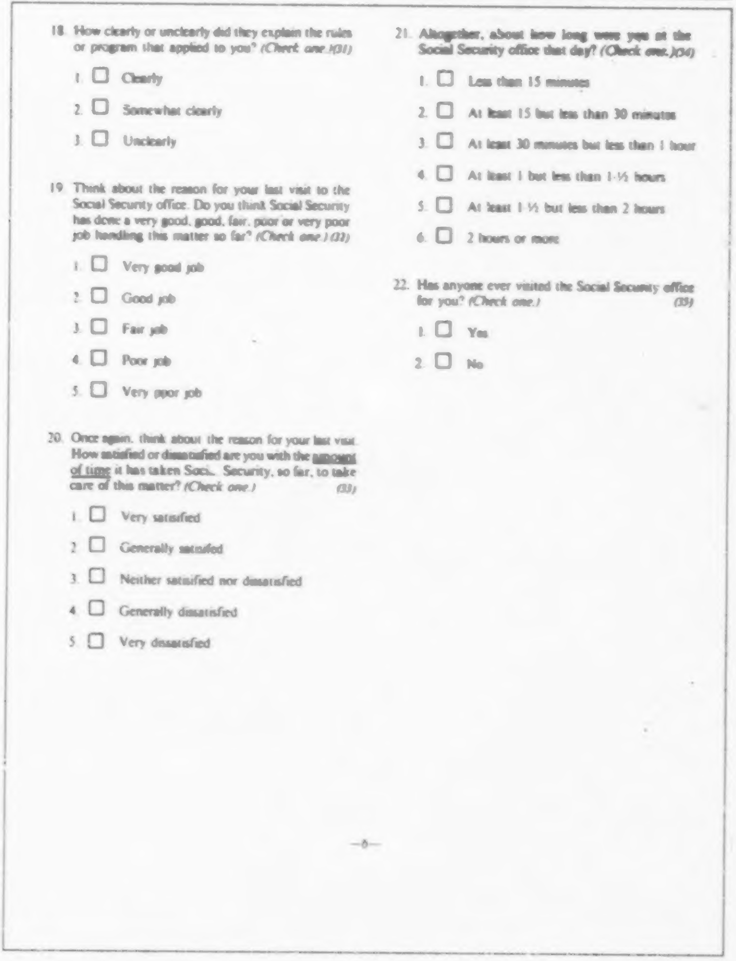
   1. ☐ Longer than expected
   2. ☐ About as long as expected
   3. ☐ Shorter than expected

16. How much privacy did you have at the Social Security office to talk about your business? Did you have more than, about as much as, or less than you needed? *(Check one.)* *(29)*

   1. ☐ Had more privacy than needed
   2. ☐ Had about as much privacy as needed
   3. ☐ Had less privacy than needed

17. In general, how courteous or discourteous were Social Security employees to you during your last visit? *(Check one.)* *(30)*

   1. ☐ Very courteous
   2. ☐ Generally courteous
   3. ☐ Neither courteous nor discourteous
   4. ☐ Generally discourteous
   5. ☐ Very discourteous



18. How clearly or unclearly did they explain the rules or program that applied to you? *(Check one.)(31)*

1. ☐ Clearly
2. ☐ Somewhat clearly
3. ☐ Unclearly

19. Think about the reason for your last visit to the Social Security office. Do you think Social Security has done a very good, good, fair, poor or very poor job handling this matter so far? *(Check one.) (32)*

1. ☐ Very good job
2. ☐ Good job
3. ☐ Fair job
4. ☐ Poor job
5. ☐ Very poor job

20. Once again, think about the reason for your last visit. How satisfied or dissatisfied are you with the amount of time it has taken Soci. Security, so far, to take care of this matter? *(Check one.)* *(33)*

1. ☐ Very satisfied
2. ☐ Generally satisfied
3. ☐ Neither satisfied nor dissatisfied
4. ☐ Generally dissatisfied
5. ☐ Very dissatisfied

21. **Altogether, about how long were you at the Social Security office that day?** *(Check one.)(34)*

1. ☐ Less than 15 minutes
2. ☐ At least 15 but less than 30 minutes
3. ☐ At least 30 minutes but less than 1 hour
4. ☐ At least 1 but less than 1-½ hours
5. ☐ At least 1-½ but less than 2 hours
6. ☐ 2 hours or more

22. Has anyone ever visited the Social Security office for you? *(Check one.)* *(35)*

1. ☐ Yes
2. ☐ No

—6—

PART III
TELEPHONING SOCIAL SECURITY

23. Do you know that Social Security business can be taken care of over the telephone? *(Check one.)* *(36)*

1. ☐ Yes → *(Continue.)*
2. ☐ No → *(Skip to Question 25.)*

24. Do you know that almost all Social Security business can be taken care of over the telephone? *(Check one.)* *(37)*

1. ☐ Yes
2. ☐ No

25. Have you ever reached or tried to contact Social Security by telephone? *(Check one.)* *(38)*

1. ☐ Yes, I've reached them by phone } *(Continue.)*
2. ☐ Yes, I've tried to contact them by phone, but never reached them } *(Skip to Question 34.)*
3. ☐ No, I've never reached or tried to contact them by phone } *(Skip to Question 34.)*

26. About how many times in all have you reached Social Security by telephone? *(Check one.)* *(39)*

1. ☐ 1 time
2. ☐ 2 times
3. ☐ 3 times
4. ☐ More than 3 times

QUESTIONS 27 THROUGH 35 ARE ABOUT THE LAST TIME YOU REACHED SOCIAL SECURITY BY TELEPHONE. PLEASE ANSWER THEM ABOUT THAT PHONE CALL ONLY. IF YOU'VE NEVER REACHED SOCIAL SECURITY BY PHONE, ***SKIP TO QUESTION 36.***

27. About how long ago did you last reach Social Security by telephone? *(Check one.)* *(40)*

1. ☐ Within the last 3 months
2. ☐ At least 3 but less than 6 months ago
3. ☐ At least 6 but less than 9 months ago
4. ☐ At least 9 but less than 12 months ago
5. ☐ 12 months ago or more

28. The last time you reached Social Security by phone, about how many times did you try before you got through? *(Check one.)* *(41)*

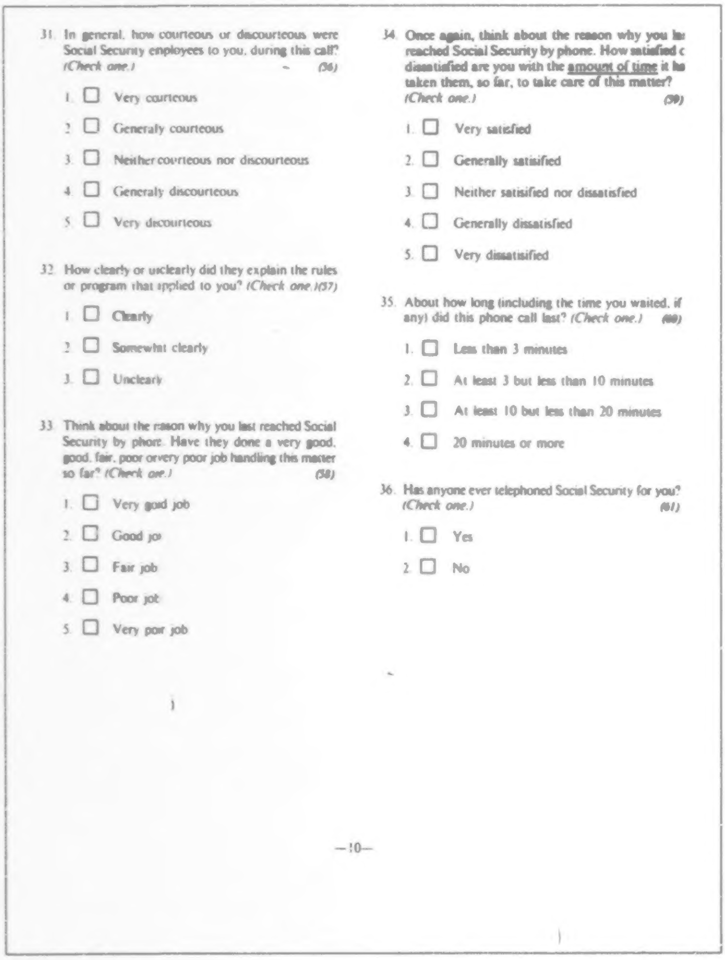
1. ☐ 1 time, got through on the first try
2. ☐ 2 times
3. ☐ 3 times
4. ☐ More than 3 times

29. Indicate whether or not each of the following things happened to you the last time you reached Social Security by phone. *(Check one box for each row.)*

	Yes 1	No 2	
1. Before you got through, you hung up because no one answered			*(42)*
2. Before you got through, you hung up because you got a busy signal			*(43)*
3. Once you got through, you were put on hold			*(44)*
4. Once you got through, you were put on hold and you hung up while you were waiting			*(45)*
5. Once you got through, you were disconnected			*(46)*

30. Listed below are several reasons why a person might telephone the Social Security office. Indicate whether or not your last phone call had something to do with each. *(Check one box for each row.)*

	Yes	No	
	1	2	
1. You filed a claim for retirement benefits	☐	☐	*(47)*
2. You filed a claim for disability benefits	☐	☐	*(48)*
3. You filed a claim for survivors benefits	☐	☐	*(49)*
4. You filed a claim for Supplemental Security Income (SSI) benefits	☐	☐	*(50)*
5. You asked for help concerning Medicare	☐	☐	*(51)*
6. You asked about a notice or other mail you'd gotten from Social Security	☐	☐	*(52)*
7. You notified Social Security of a name or address change	☐	☐	*(53)*
8. Social Security asked you to contact them	☐	☐	*(54)*
9. You telephoned Social Security for some other reason *(Please specify.)* ____________________ ____________________ ____________________ ____________________	☐	☐	*(55)*



31. In general, how courteous or discourteous were Social Security employees to you, during this call? *(Check one.)* (56)

1. ☐ Very courteous
2. ☐ Generaly courteous
3. ☐ Neither courteous nor discourteous
4. ☐ Generaly discourteous
5. ☐ Very dicourteous

32. How clearly or uclearly did they explain the rules or program that applied to you? *(Check one.)*(57)

1. ☐ Clearly
2. ☐ Somewhat clearly
3. ☐ Unclearly

33. Think about the reason why you last reached Social Security by phone. Have they done a very good, good, fair, poor orvery poor job handling this matter so far? *(Check one.)* (58)

1. ☐ Very good job
2. ☐ Good job
3. ☐ Fair job
4. ☐ Poor job
5. ☐ Very poor job

34. **Once again, think about the reason why you la reached Social Security by phone. How satisfied c dissatisfied are you with the amount of time it ha taken them, so far, to take care of this matter?** *(Check one.)* (59)

1. ☐ Very satisfied
2. ☐ Generally satisified
3. ☐ Neither satisified nor dissatisfied
4. ☐ Generally dissatisfied
5. ☐ Very dissatisified

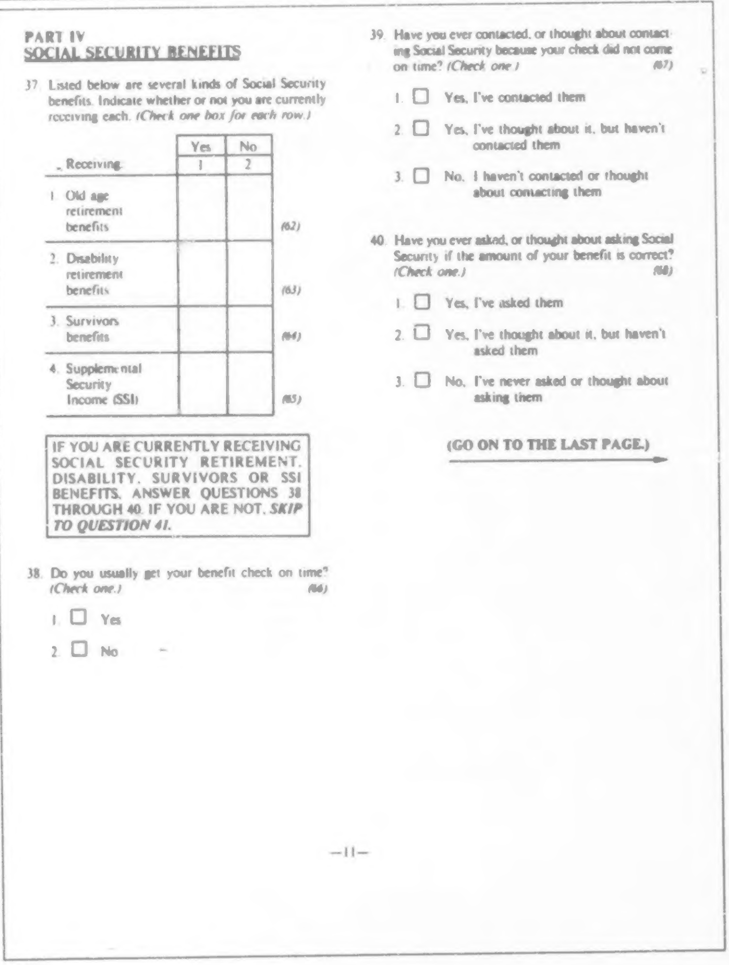
35. About how long (including the time you waited, if any) did this phone call last? *(Check one.)* (60)

1. ☐ Less than 3 minutes
2. ☐ At least 3 but less than 10 minutes
3. ☐ At least 10 but less than 20 minutes
4. ☐ 20 minutes or more

36. Has anyone ever telephoned Social Security for you? *(Check one.)* (61)

1. ☐ Yes
2. ☐ No

—10—



PART IV
SOCIAL SECURITY BENEFITS

37. Listed below are several kinds of Social Security benefits. Indicate whether or not you are currently receiving each. *(Check one box for each row.)*

Receiving	Yes 1	No 2	
1. Old age retirement benefits	☐	☐	*(62)*
2. Disability retirement benefits	☐	☐	*(63)*
3. Survivors benefits	☐	☐	*(64)*
4. Supplemental Security Income (SSI)	☐	☐	*(65)*

IF YOU ARE CURRENTLY RECEIVING SOCIAL SECURITY RETIREMENT, DISABILITY, SURVIVORS OR SSI BENEFITS, ANSWER QUESTIONS 38 THROUGH 40. IF YOU ARE NOT, ***SKIP TO QUESTION 41.***

38. Do you usually get your benefit check on time? *(Check one.)* *(66)*

1. ☐ Yes
2. ☐ No

39. Have you ever contacted, or thought about contacting Social Security because your check did not come on time? *(Check one.)* *(67)*

1. ☐ Yes, I've contacted them
2. ☐ Yes, I've thought about it, but haven't contacted them
3. ☐ No, I haven't contacted or thought about contacting them

40. Have you ever asked, or thought about asking Social Security if the amount of your benefit is correct? *(Check one.)* *(68)*

1. ☐ Yes, I've asked them
2. ☐ Yes, I've thought about it, but haven't asked them
3. ☐ No, I've never asked or thought about asking them

(GO ON TO THE LAST PAGE.) →

—11—

PART V
OVERALL QUALITY OF SOCIAL SECURITY'S SERVICE

41. Overall, how would you rate the service that Social Security has given you? *(Check one.)* *(69)*

1. ☐ Very good
2. ☐ Good
3. ☐ Fair
4. ☐ Poor
5. ☐ Very poor

42. How would you rate Social Security's service in comparison to the service you get from other Federal, State and local government agencies? Is Social Security's service better, about as good as, or worse? *(Check one.)* *(70)*

1. ☐ Social Security much better than others
2. ☐ Social Security somewhat better than others
3. ☐ Social Security is about as good as others
4. ☐ Social Security somewhat worse than others
5. ☐ Social Secuirty much worse than others
6. ☐ Can't say, have had no contact with other government agencies

43. If you must contact Social Security in the future, would your first preference be to write, telephone, or visit? *(Check one.)* *(71)*

1 *(80)*

1. ☐ Write
2. ☐ Telephone
3. ☐ Visit

44. Thank you for your cooperation. We appreciate your help. If you have any comments about how Social Security has served you please write them in the space below.

Responses to GAO Questionnaire (Overall, by Program, and by Status)

Numerals are percentages

Question	Overall	By program[a]		By status[a]	
		OASDI	SSI	Disabled	Nondisabled
Part I: Mail to and from Social Security					
1. Have you ever written to SS?					
Yes (continue)	27	29	21	33	29
No (skip to Q 3)	73	71	79	67	71
2. If you have written to SS, about how many times in all have you written?					
1 time	33	35	22	36	32
2 times	25	25	29	18	29
3 times	16	16	15	14	17
More than 3 times	26	25	33	32	23
3. Often SS contacts people by mail to give or ask for information. Have you ever received mail, other than a benefit check itself, from SS?					
Yes (continue)	76	75	80	79	75
No (skip to Q 8)	24	25	20	21	25
4. In general, is the mail you've received from SS written in a language that you can read?					
Yes	88	88	88	85	88
No	12	12	12	15	12
5. In general, how easy or difficult to understand is the mail you've received from SS?					
Very easy to understand	25	25	25	25	24
Generally easy to understand	42	43	38	38	44
Neither easy nor difficult to understand	15	14	16	17	14
Generally difficult to understand	12	12	14	15	11
Very difficult to understand	6	6	7	6	7
6. Have you ever contacted, or thought about contacting SS to find out what the mail you'd received from them meant?					
Yes, I've contacted them	49	46	58	58	46
Yes, I've thought about it, but haven't contacted them	8	8	8	10	7
No, I haven't contacted, or thought about contacting them	43	46	34	33	47
7. Have you ever contacted, or thought about contacting either family or friends to ask them what the mail you'd received from SS meant?					
Yes, I've contacted them	32	28	45	31	29
Yes, I've thought about it, but haven't contacted them	6	5	6	6	6
No, I haven't contacted, or thought about contacting them	62	66	49	63	65

Question	Overall	By program[a]		By status[a]	
		OASDI	SSI	Disabled	Nondisabled
Part II: Visits to the Social Security Office					
8. Have you ever visited an SS office?					
Yes (continue)	91	91	91	91	90
No (skip to Q 22)	9	9	9	9	10
9. About how many times in all have you visited an SS office?					
1 time	15	17	9	8	16
2 times	22	24	15	21	23
3 times	21	22	18	18	25
More than 3 times	43	38	58	53	36
10. About how long ago did you last visit the SS office?					
Within the last 3 months	39	36	51	30	29
At least 3 but less than 6 months ago	18	17	20	12	16
At least 6 but less than 9 months ago	8	8	8	10	10
At least 9 but less than 12 months ago	6	6	5	14	4
12 months ago or more	29	33	16	34	41
11. Listed below are several reasons why a person might visit the SS office. Indicate whether or not your last visit had something to do with each.	**Yes No**	**Yes No**	**Yes No**	**Yes No**	**Yes No**
You filed a claim for retirement benefits	26 74	32 68	8 92	7 93	36 64
You filed a claim for disability benefits	23 77	20 80	31 69	46 54	8 92
You filed a claim for survivors benefits	16 84	19 81	6 94	9 91	25 75
You filed a claim for SSI benefits	19 81	8 92	53 47	12 88	5 95
You asked for help concerning Medicare	13 87	11 89	19 81	12 88	10 90
You asked about a notice or other mail you'd gotten from SS	30 70	30 70	30 70	39 61	31 69
You notified SS of a name or address change	22 78	21 79	28 72	26 74	23 78
SS asked you to contact them	27 73	22 78	43 57	36 65	19 81
You visited the office for some other reason	20 80	20 80	21 79	24 76	19 81
12. About what time did you get to the SS office that day?					
Before 9 a.m./before it opened	13	13	13	20	10
9 a.m. to before 11 a.m.	47	46	51	38	51
11 a.m. to before 1 p.m.	15	15	14	16	14
1 p.m. to before 3 p.m.	19	20	16	21	19
3 p.m. to before 5 p.m.	6	6	6	6	7
At 5 p.m. or later	0	0	0	1	0

Question	Overall	By program[a]		By status[a]	
		OASDI	SSI	Disabled	Nondisabled
13. We would like to know how crowded or empty the SS office waiting area was. Was there room for everyone to sit in a chair during most of the time you were there?					
Yes	93	94	91	91	95
No	7	6	9	9	5
14. About how much time did you spend waiting to be helped at the SS office that day?					
Less than 5 minutes	6	6	6	5	7
5 to less than 15 minutes	28	30	23	21	34
5 to less than 15 minutes	28	30	23	21	34
15 to less than 30 minutes	33	33	31	28	37
30 minutes or more	33	30	40	46	22
15. Considering the reason for your visit and the number of people there waiting to be helped, was your wait longer than, about as long as, or shorter than you expected?					
Longer than expected	21	20	26	36	14
About as long as expected	49	49	48	43	53
Shorter than expected	30	31	26	21	34
16. How much privacy did you have at the SS office to talk about your business? Did you have more than, about as much as, or less than you needed?					
Had more privacy than needed	9	9	10	7	10
Had about as much privacy as needed	79	81	75	71	84
Had less privacy than needed	12	11	15	23	6
17. In general, how courteous or discourteous were SS employees to you during your last visit?					
Very courteous	57	59	50	54	58
Generally courteous	32	31	36	29	34
Neither courteous nor discourteous	7	7	9	11	5
Generally discourteous	2	1	4	2	1
Very discourteous	2	2	1	3	2
18. How clearly or unclearly did they explain the rules or program that applied to you?					
Clearly	72	71	72	63	73
Somewhat clearly	22	22	22	25	21
Unclearly	6	7	6	12	5

Question	Overall	By program[a]		By status[a]	
		OASDI	SSI	Disabled	Nondisabled
19. Think about the reason for your last visit to the SS office. Do you think SS has done a very good, good, fair, poor or very poor job handling this matter so far?					
Very good job	38	39	32	29	42
Good job	35	35	34	31	37
Fair job	15	14	20	23	11
Poor job	7	7	8	7	7
Very poor job	5	5	6	9	4
20. Once again, think about the reason for your last visit. How satisfied or dissatisfied are you with the amount of time it has taken SS, so far, to take care of this matter?					
Very satisfied	43	45	38	34	49
Generally satisfied	35	35	34	35	35
Neither satisfied nor dissatisfied	8	8	9	14	6
Generally dissatisfied	6	5	9	7	5
Very dissatisfied	8	7	10	11	6
21. Altogether, about how long were you at the SS office that day?					
Less than 15 minutes	9	10	8	12	10
At least 15 but less than 30 minutes	29	30	25	21	35
At least 30 minutes but less than an hour	33	34	30	30	35
At least 1 but less than 1-1/2 hours	15	14	19	16	11
At least 1-1/2 but less than 2 hours	6	6	7	11	5
2 hours or more	8	6	11	11	5
22. Has anyone ever visited the SS office for you?					
Yes	14	11	26	17	9
No	86	89	74	83	91
Part III: Telephoning Social Security					
23. Do you know that SS business can be taken care of over the telephone?					
Yes (continue)	84	85	81	88	86
No (skip to Q 25)	16	15	19	12	14
24. Do you know that almost all SS business can be taken care of over the telephone?					
Yes	76	76	77	72	79
No	24	24	23	28	21
25. Have you ever reached or tried to contact SS by telephone?					
Yes, I've reached them by phone (continue)	72	71	76	81	68
Yes, I've tried to contact them by phone, but never reached them (skip to Q 36)	4	4	3	4	5
No, I've never reached or tried to contact them by phone (skip to Q 36)	24	25	21	16	27

		By program[a]		By status[a]	
Question	**Overall**	**OASDI**	**SSI**	**Disabled**	**Nondisabled**
26. About how many times in all have you reached SS by telephone?					
1 time	15	16	12	11	14
2 times	21	21	21	17	20
3 times	20	21	17	20	22
More than 3 times	44	42	50	52	44
27. About how long ago did you last reach SS by telephone?					
Within the last 3 months	48	43	61	42	39
At least 3 but less than 6 months ago	20	21	18	19	23
At least 6 but less than 9 months ago	8	9	7	11	8
At least 9 but less than 12 months ago	5	5	6	8	4
12 months ago or more	19	22	8	21	26
28. The last time you reached SS by phone, about how many times did you try before you got through?					
1 time, got through on the first try	47	48	44	43	49
2 times	28	27	29	26	29
3 times	11	11	13	13	10
More than 3 times	14	14	14	19	13
29. Indicate whether or not each of the following things happened to you the last time you reached SS by phone.	**Yes No**	**Yes No**	**Yes No**	**Yes No**	**Yes No**
Before you got through, you hung up because no one answered	12 88	11 89	14 86	14 86	11 89
Before you got through, you hung up because you got a busy signal	35 65	33 67	40 60	38 62	30 70
Once you got through, you were put on hold	46 54	45 55	49 51	56 44	38 62
Once you got through, you were put on hold and you hung up while you were waiting	10 90	10 90	12 88	14 86	8 92
Once you got through, you were disconnected	5 95	5 95	7 93	10 90	2 98
30. Listed below are several reasons why a person might telephone the SS office. Indicate whether or not your last phone call had something to do with each.					
You filed a claim for retirement benefits	14 86	17 83	4 96	5 95	18 82
You filed a claim for disability benefits	17 83	14 86	28 72	34 66	3 97
You filed a claim for survivors benefits	10 90	12 88	6 94	5 95	16 85
You filed a claim for SSI benefits	15 85	6 94	42 58	9 91	4 96
You asked for help concerning Medicare	14 86	12 88	20 80	15 85	10 90
You asked about a notice or other mail you'd gotten from SS	40 60	37 63	48 52	46 54	38 62
You notified SS of a name or address change	22 78	20 80	29 71	22 79	24 76
SS asked you to contact them	26 74	21 79	40 60	29 71	18 82
You telephoned SS for some other reason	25 75	27 73	19 81	28 72	26 74

Question	Overall	By program[a] OASDI	By program[a] SSI	By status[a] Disabled	By status[a] Nondisabled
31. In general, how courteous or discourteous were SS employees to you during this call?					
Very courteous	55	58	46	55	60
Generally courteous	34	33	37	33	34
Neither courteous nor discourteous	8	7	12	10	6
Generally discourteous	2	1	4	1	1
Very discourteous	1	1	1	2	0
32. How clearly or unclearly did they explain the rules or program that applied to you?					
Clearly	70	72	64	68	74
Somewhat clearly	23	21	28	25	19
Unclearly	7	7	8	7	7
33. Think about the reason why you last reached SS by phone. Have they done a very good, good, fair, poor or very poor job handling this matter so far?					
Very good job	40	42	33	35	46
Good job	35	36	33	33	37
Fair job	15	13	22	18	10
Poor job	6	5	7	8	4
Very poor job	4	4	5	7	3
34. Once again, think about the reason why you last reached SS by phone. How satisfied or dissatisfied are you with the amount of time it has taken them, so far, to take care of this matter?					
Very satisfied	42	44	37	36	48
Generally satisfied	36	35	38	39	32
Neither satisfied nor dissatisfied	10	10	9	14	9
Generally dissatisfied	5	5	6	4	6
Very dissatisfied	7	7	9	9	5
35. About how long (including the time you waited, if any) did this phone call last?					
Less than 3 minutes	25	25	24	17	27
At least 3 but less than 10 minutes	55	56	52	58	57
At least 10 but less than 20 minutes	15	14	17	18	13
20 minutes or more	5	5	6	7	4
36. Has anyone ever telephoned SS for you?					
Yes	18	12	37	18	11
No	82	88	63	82	90

Question	Overall	By program[a] OASDI	By program[a] SSI	By status[a] Disabled	By status[a] Nondisabled
Part IV: Social Security Benefits					
37. Listed below are several kinds of SS benefits. Indicate whether or not you are currently receiving each.	**Yes No**	**Yes No**	**Yes No**	**Yes No**	**Yes No**
Old age retirement benefits	33 67	38 62	15 85	4 96	55 45
Disability retirement benefits	22 78	24 76	17 83	69 31	7 93
Survivors benefits	17 83	21 79	7 93	7 93	30 70
SSI	25 75	9 91	73 27	17 83	7 94
38. Do you usually get your benefit check on time?					
Yes	96	96	97	94	97
No	4	4	3	6	3
39. Have you ever contacted, or thought about contacting SS because your check did not come on time?					
Yes, I've contacted them	25	23	30	36	18
Yes, I've thought about it, but haven't contacted them	2	1	5	1	1
No, I haven't contacted or thought about contacting them	73	76	64	63	80
40. Have you ever asked, or thought about asking SS if the amount of your benefit is correct?					
Yes, I've asked them	28	27	29	29	25
Yes, I've thought about it, but haven't asked them	11	11	11	17	8
No, I've never asked or thought about asking them	61	62	60	54	67
Part V: Overall Quality of Social Security's Service					
41. Overall, how would you rate the service that SS has given you?					
Very good	42	43	41	32	47
Good	36	38	30	40	39
Fair	14	13	19	19	10
Poor	4	3	6	3	2
Very poor	3	3	4	6	2
42. How would you rate SS's service in comparison to the service you get from other Federal, State, and local government agencies? Is SS's service better, about as good as, or worse?					
SS much better than others	29	28	30	24	31
SS somewhat better than others	22	22	21	14	25
SS is about as good as others	43	44	41	54	39
SS somewhat worse than others	4	3	5	5	3
SS much worse then others	3	3	2	4	3
Can't say, have had no contact with other government agencies	0	0	0	0	0

Question	Overall	By program[a]		By status[a]	
		OASDI	SSI	Disabled	Nondisabled
43. If you must contact SS in the future, would your first preference be to write, telephone, or visit?					
Write	4	3	5	2	4
Telephone	51	50	52	58	48
Visit	45	47	42	40	48
44. Thank you for your cooperation. We appreciate your help. If you have any comments about how SS has served you, please write them in the space below.					
Positive comment	30	31	27	15	38
Negative comment	58	57	60	74	51
Mixed comment	12	11	13	9	12

[a] Responses are weighted.

Notes: 1. Except where otherwise indicated, respondent was instructed to check one response to each question.
2. The sum of individual percentages may not equal 100 percent due to independent rounding.

Note: D Disabled; ND Nondisabled; Q Question; SS Social Security.

Sampling and Estimation Methodology

SSA data bases lack the capability to identify precisely the universe of SSA/client contacts. Consequently, in preparing to conduct a nationwide survey concerning the perceived quality of SSA services, we had to estimate the total universe size. To do this, we worked with SSA officials to identify and select SSA computerized files and transaction codes that, in our judgment and SSA's, indicated an SSA/client contact. While this approach may lack desired precision, we believe it was adequate because our objective was to develop a universe of SSA clients who had high probabilities of having had recent contact with SSA.

Development of a Sampling List

To select a sample of persons to receive mail questionnaires, we first obtained a list of the universe of SSI and OASDI client transactions. SSA's data processing cycles determined which transaction files would be complete and ready for our use. Based on our anticipated dates for mailing the questionnaires to assure a recent contact, we selected September 1984 transactions. Due to the large volume of transactions, we randomly selected 4 days (1 in each of the 4 weeks in September) of transactions meeting our criteria for type of contact. These 684,586 transactions constituted the list from which we drew our sample.

Sample Selection

From our 4-day list of transactions, we drew an initial random sample of each of the four SSA program categories and their corresponding transaction groups—SSI initial claims, SSI postentitlements, OASDI initial claims, and OASDI postentitlements. We then matched these records, by Social Security number, to SSA's Master Beneficiary Record (for OASDI beneficiaries) and Supplemental Security Record (for SSI recipients) to obtain additional information needed to select a final sample and mail questionnaires. After deleting records of deceased individuals, absent or unusable mailing addresses, and duplicate individuals to the extent practicable, we randomly selected a subsample from each group, thereby limiting our survey to a manageable number of questionnaires. Our final sample size was 1,633, as table III.1 shows.

Table III.1: Development of Final Sample for Survey

Program	Type of transaction	4-day sampling frame	Initial sample	Final sample
SSI	Initial claim	24,856	245	169
SSI	Postentitlement	147,297	1,510	527
OASDI	Initial claim	96,838	1,000	442
OASDI	Postentitlement	415,595	3,000	495
Total		**684,586**	**5,755**	**1,633**[a]

[a] 1,680 questionnaires were mailed; undeliverables and additional deceased individuals reduced the sample to 1,633.

Estimation to the Universe of Clients

Because we randomly sampled September 1984 transactions that met our criteria as being initiated by telephone, mail, or personal contacts, we projected our sample results to the September universe of SSA clients. We used appropriate statistical formulas for a stratified random sample design to determine our universe of SSA clients, estimated responses based on questionnaires completed and returned, and sampling errors of the estimates. Our September SSA client universe was more than 2.7 million people. All percentages in this report, unless otherwise noted, reflect expected response rates had we actually sent questionnaires to all clients in all four groups. Table III.2 shows the response rates by transaction group.

Table III.2: Questionnaire Response Rates

Program	Type of transaction	Number sampled	Number responding	Response rate (percent)
SSI	Initial claim	169	135	79.9
SSI	Postentitlement	527	430	81.6
OASDI	Initial claim	442	390	88.2
OASDI	Postentitlement	495	436	88.1
Total		**1,633**	**1,391**	85.2

Appendix IV

Estimates and Confidence Intervals for Selected Questionnaire Responses

Variable	Universe[a]	Estimate (percent)	Estimated range[b] (percent)	
			Lower limit	Upper limit
Understandability of mail received from SSA	2,009,901			
Very to generally easy		67.0	63.5	70.5
Neither easy nor difficult		14.6	12.0	17.2
Generally to very difficult		18.3	15.4	21.2
Waiting time during last visit to SSA	2,448,092			
Longer than expected		21.3	18.6	24.0
As long as expected		49.0	45.7	52.3
Shorter than expected		29.7	26.7	32.7
Privacy afforded to conduct business at SSA	2,441,981			
More than needed		9.0	7.1	10.9
As much as needed		79.3	76.6	82.0
Less than needed		11.7	9.6	13.8
Courteousness of SSA employees during last visit	2,449,503			
Very to generally courteous		88.7	86.6	90.8
Neither courteous nor discourteous		7.5	5.8	9.2
Generally to very discourteous		3.9	2.6	5.2
During last visit, the clarity of explanation by SSA of the applicable rules or programs	2,401,958			
Clear		71.7	68.6	74.8
Somewhat clear		21.8	19.0	24.6
Unclear		6.5	4.8	8.2
During last phone call, the courtesy of SSA employees	1,781,810			
Very to generally courteous		89.2	86.9	91.5
Neither courteous nor discourteous		8.3	6.2	10.4
Generally to very discourteous		2.4	1.3	3.5
During last phone call, the clarity of explanation by SSA of the applicable rules or programs	1,768,632			
Clear		70.4	66.8	74.0
Somewhat clear		22.8	19.5	26.1
Unclear		6.8	4.8	8.8

Variable	Universe[a]	Estimate (percent)	Estimated range[b] (percent)	
			Lower limit	Upper limit
Overall rating of SSA service	2,674,866			
Very good to good		78.7	76.2	81.2
Fair		14.4	12.2	16.6
Poor to very poor		6.8	5.3	8.3

[a] Represents the estimated total number of September 1984 SSA clients who would have responded to the question.

[b] Computed at the 95-percent level of statistical confidence, e.g., we are 95 percent confident that the true proportion of persons is between the ranges specified.

Representativeness of the Sample of SSA Clients

We selected our samples of SSA clients to receive questionnaires from transaction records of 4 randomly chosen days in September 1984. Also, since we exercised some judgment in refining the sample to include only those persons having made telephone, mail, or personal contacts with SSA, we wanted to confirm that our sampling strategy did not introduce any biases in the responses. In other words, we wanted assurance that our September sample groups were representative of the overall OASDI and SSI populations. We therefore sent identical questionnaires to two "control groups"—that is, random samples of the entire OASDI beneficiary and SSI recipient populations, provided by SSA officials. Details of the control group samples and responses are shown in table V.1.

Table V.1: Client Control Group Responses

Program	Sample	Number of responses	Response rate (percent)
SSI	475	382	80.4
OASDI	480	431	89.8
Total	**955[a]**	**813**	**85.1**

[a] 994 questionnaires were mailed; however, undeliverables and deceased individuals reduced the sample to 955.

We used appropriate statistical tests of significant differences[1] to compare the responses to certain questions by the September sample groups and the control groups. We also compared demographic data, such as sex and age for these groups. Generally, the differences between the groups were not statistically significant.[2] From this, we concluded that our September sample groups were representative of the overall OASDI and SSI populations and that our sampling strategy did not introduce significant biases in the responses. In a few cases, however, certain questions or categories within questions exhibited statistically significant differences between the September and control groups' responses. We believe there are two reasons for this:

1. The relatively large sample sizes can result in a statistical difference even when the absolute value of the observed difference is small. For example, question 41 in our questionnaire asked the client to rank the overall service provided by SSA, from "1" indicating "very good" to "5"

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[1] The statistical "t-test" and "Chi-Square" tests were used. These tests are intended to determine whether differences found in a sample indicate an underlying, systematic difference (statistically significant), or conversely, should only be attributed to normal random sampling variation (not statistically significant).

[2] The significances of differences were computed at the 95-percent level of statistical confidence.

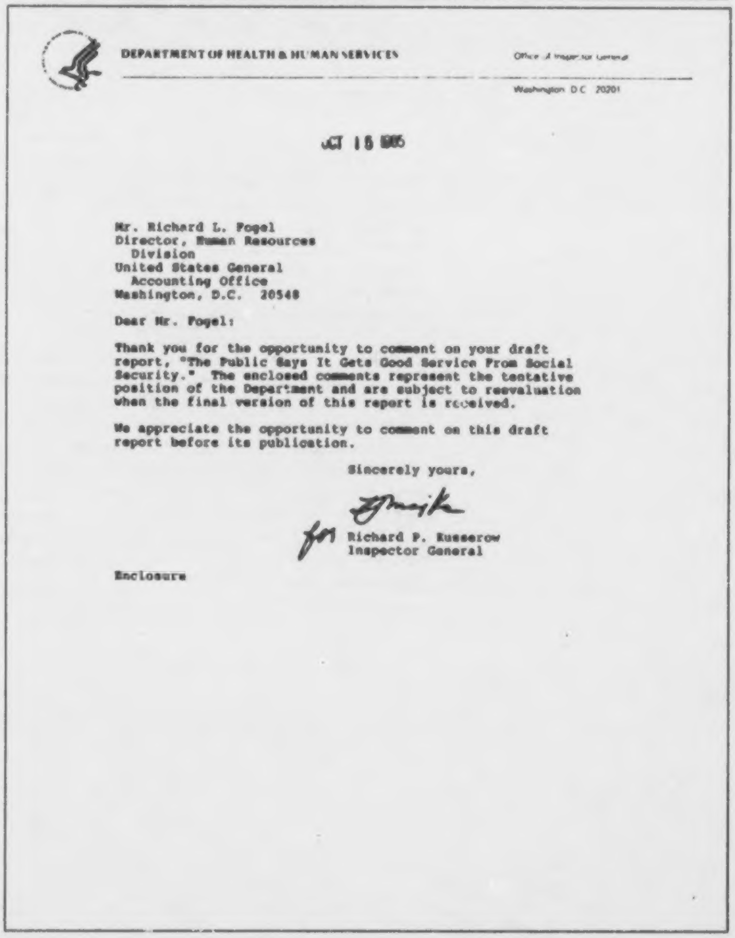
indicating "very poor." The average ranking by the OASDI control group was 1.61, that is, between "very good" and "good." The average ranking by the OASDI September sample group was 1.85, also between "very good" and "good." Although the 0.24 ranking points difference was found to be statistically significant, we believe that the two groups do not really differ in a practical sense because both essentially believe that the service is "good."

2. Our September samples and control groups did differ substantially in one critical element: the recency of contacts with SSA. More than 75 percent of the 1,391 respondents from the September sample had visited and/or phoned SSA within the previous 6 months, while only 31 percent of the 813 respondents from the control sample had done so. This was precisely our original objective in refining SSA's data bases into a relevant client universe from which to derive a sample. We wanted to focus on persons who had recent contacts with SSA, thereby permitting an up-to-date assessment of how they perceived SSA service.

We believe, however, that those differences between the September and control group samples found to be statistically significant can be attributed to the length of time since the most recent contacts were made, rather than to the September group's not being representative of the overall populations. We found that similar differences, based on the length of time since contact, existed within the September sample group itself. For example, the average ranking for question 41 by September clients who had contacted SSA more than 6 months ago was 1.65, that is, between "very good" to "good." The average ranking by September clients who had contacted SSA within the last 6 months was 2.02, that is, primarily at the "good" level.

Appendix VI

Advance Comments From the Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES
Office of Inspector General
Washington D.C. 20201

OCT 15 1985

Mr. Richard L. Fogel
Director, Human Resources
Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Fogel:

Thank you for the opportunity to comment on your draft report, "The Public Says It Gets Good Service From Social Security." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

for Richard P. Kusserow
Inspector General

Enclosure

THE DEPARTMENT OF HEALTH AND HUMAN SERVICES' COMMENTS ON THE GENERAL ACCOUNTING OFFICE'S DRAFT REPORT, "THE PUBLIC SAYS IT GETS GOOD SERVICE FROM SOCIAL SECURITY"

General

We agree with the conclusions in the draft report and are pleased that it is favorable to the Social Security Administration (SSA). Most of the public feel that they get good service from us, and many of the problems identified in the survey are already being worked on by SSA components. The report acknowledges our commitment to service by quoting SSA values, including "provide courteous, sensitive and dignified service to the public." We believe the independence of the GAO Survey contributed to the high response rate by the sampled people and will give the report readers confidence in the validity of GAO's generally favorable findings.

General Accounting Office (GAO) Recommendation

That the Secretary direct the Commissioner of Social Security to conduct periodic surveys of client satisfaction with the quality of SSA service and advise the Congress of the results.

Department of Health and Human Services Comment

We agree. Periodic surveys of client perceptions of the quality of SSA services should be conducted and the results reported to Congress. SSA staff are now developing a proposal for measurement of our performance in providing service.

Other Matters

Other specific comments are as follows:

1. The information presented in Appendix II indicates that Supplemental Security Income respondents gave negative answers about service more frequently than those in other programs. Staff working in that area would like to do a more detailed analysis of these findings. To assist them, could you please provide, at the staff level, copies of the other "analyses" referred to on page 6 of the report.

Now on pp. 14-15.

Now on p. 19.

2. Page 12 of the report discusses SSA teleservice centers. The language is misleading in that it suggests that only some of the population is served by district and branch offices. We suggest restating to clarify that all the population is served by district and branch offices, and 50 percent of the population also has access to an SSA teleservice center.

Now on p. 34.

Now on p. 33.

3. The analysis of questionnaire responses by SSA region on page 27 is expressed by percentages only. To be more meaningful to SSA the numbers of respondents per region is needed. The same is true of the analysis of approved vs. denied claimants on page 24.

SUMMARY OF GAO REPORT

Mr. SABATINI. In November and December 1984, GAO surveyed attitudes of a random sample of 1,680 social security and SSI clients nationwide. Based on recent contacts with SSA by telephone, visit or correspondence, they were asked to rate certain SSA services, including such specific aspects as employee courtesy, privacy of interviews, clarity of program explanations and waiting times.

Overall, in spite of the increasingly complex programs which SSA administers, most respondents gave SSA high marks, rating the service they received as good to very good.

One quote from the GAO report:

> Most OASDI and SSI clients who visited SSA field offices waited no longer than they had expected for service and had enough privacy to conduct their business. Those who visited or reached SSA by phone found SSA employees very courteous and clear in explaining the programs and rules, generally were satisfied to very satisfied with the amount of time it took to complete their business, and believed that SSA did a good to very good job in handling the purpose of the contact.

Although most SSI recipients, denied claimants, and the disabled also found SSA service to be good, they rated it lower than did other respondents.

GAO recommends that SSA conduct periodic surveys of client satisfaction with the quality of SSA's service and advise Congress of the results. The GAO survey could be used as a base line to measure any changes in client attitudes toward overall SSA service. Future surveys could give Congress and others insight into the effects of SSA's planned employment reductions.

In comments on the report, HHS agreed that periodic surveys of client perceptions of the quality of SSA service should be conducted and the results reported to Congress.

Currently, SSA is exploring various approaches to conducting the ongoing client surveys which GAO recommended. In addition, data on waiting times are being collected for the quarterly reports to the House committee, beginning with the March 1986 quarter.

QUARTERLY REPORTS TO CONGRESS ON SERVICE

Mr. NATCHER. Last year, the committee directed Social Security to report to us quarterly on a number of measures of its service to the public. The first of these reports was submitted last week, and we will place this report in the record at this point.

[The information follows:]

REPORT TO THE
HOUSE APPROPRIATIONS COMMITTEE
ON
THE LEVELS OF SERVICE PROVIDED
TO SOCIAL SECURITY BENEFICIARIES
AND
THE PUBLIC IN GENERAL
FOR QUARTER ENDING
DECEMBER 1985

Report 1
Social Security Administration
March 1986

REPORT TO THE HOUSE APPROPRIATIONS COMMITTEE ON THE LEVELS OF SERVICE PROVIDED TO SOCIAL SECURITY BENEFICIARIES AND THE PUBLIC IN GENERAL

REPORT 1, DECEMBER 1985 QUARTER

INTRODUCTION

In House Report No. 99-289, accompanying the Department of Health and Human Services Appropriation bill for 1986, the House Committee on Appropriations directed the Commissioner of Social Security to develop a report with indicators that measure the level of service provided to Social Security beneficiaries and the public in general. The following language was contained in the Report:

> The staffing and facilities issues have brought into focus the concern of this Committee and the Congress as a whole that levels of service be maintained for Social Security beneficiaries and the public in general. In order to better evaluate the effect of changes in Social Security's administrative activities on service, it is essential that the Committee have dependable data on what is happening in the field. This includes regional and national average processing time for processing new or revised claims, posting of earnings or appealing decisions; the accuracy of payments as measured by existing quality control programs; and finally the convenience to the public as measured by commuting and waiting times, etc. The Committee therefore directs the Commissioner to develop a report on these measures by January of 1986 and to submit this data to the Committee quarterly for at least the next two fiscal years. In this manner both SSA and the Congress should be able to evaluate the impact of any changes which may be made in staffing, field structure, data processing or telecommunications.

This first report, responding to the Committee's request, provides information for the December 1985 quarter and includes data currently available in Social Security systems and records. Data on waiting time, and commuting time as appropriate, will be provided beginning with the March 1986 quarter. While management, at the local level, has informally monitored waiting time and commuting time in Social Security offices, SSA has not formally collected on an ongoing basis regional and national data on waiting time or commuting time. Information on waiting times is being obtained through a series of studies which began in January 1986 and will be included in all subsequent reports. The formats for reporting this information have been included and can be found on pages 23 and 24. For comparison purposes, summary graphs have been provided for all data in this report. These graphs can be found beginning on page 25.

Over the past 50 years, SSA has consistently made efforts to improve the service it provides to the public. Every effort is made to provide good service to the public in the most efficient and cost-effective manner because SSA's administrative costs are paid from the Social Security Trust Funds. In recent years, we have kept the costs of administering the Retirement, Survivors and Disability Insurance programs to about 1.3 percent of contributions. It is significant that of the four basic values which we have enunciated underlying SSA's public service mission, three specifically deal with providing good service in a cost-effective manner. These values are : 1) provide timely and accurate benefit payments, 2) administer SSA's programs efficiently and effectively, and 3) provide courteous, sensitive and dignified public service.

The public gave SSA high marks on quality of service according to the January 1986 General Accounting Office (GAO) survey of randomly selected beneficiaries. Most of the respondents had recent contacts with SSA and were asked to rate service and comment on such things as courtesy, privacy of offices, clarity of program explanation and waiting time for service. Overall, four out of five persons rated SSA service good to very good and over half of those surveyed rated SSA services better than the service they receive from other Government agencies. According to the GAO report, "Most OASDI and SSI clients who visited SSA field offices waited no longer than they had expected for service and had enough privacy to conduct their business. Those who visited or reached SSA by telphone found SSA employees very courteous and clear in explaining the programs and rules, generally were satisfied to very satisfied with the amount of time it took to complete their business, and believed that SSA did a good to very good job in handling the purpose of the contact." Currently, we are exploring various approaches to conducting the ongoing client surveys which GAO recommended in its report. In addition, data on waiting time are being collected for the quarterly reports to the Committee. These data, along with data from the ongoing surveys of client satisfaction with SSA service, will provide the information on the quality and convenience of SSA service as requested by the Committee.

In addition to the GAO report on the service SSA is providing, the Agency has seen a number of recent accomplishments which directly relate to improved service:

- Reduced processing time for Retirement, Survivors and Health Insurance claims to 21 days, and for SSI aged claims to 11 days.
- Reduced the time it takes to issue a Social Security card to 11 days.
- Reduced field office computer response time to under 3 seconds, providing the public with quicker responses to inquiries.
- Provided immediate computer access to computation of benefit amounts with an anticipated increase in the accuracy of payments.
- Converted magnetic tape files to direct access storage devices, sharply reducing errors, and the time it takes to respond to inquiries.
- Eliminated the 4-year backlog in the Automated Earnings Reappraisal Operation process that existed a few years ago.
- Expanded the online data base to allow field offices to provide immediate benefit estimates for people age 60 and over.
- Reduced the number of pending cases.
- Improved the language in beneficiary notices to make them clearer and more easily understood.

- Maintained the Retirement and Survivors Insurance accuracy rate at 99.5 percent.
- Improved the payment accuracy rate for SSI aged claims to 96.7 percent.
- Increased the disability decision accuracy rates for initial title II and title XVI claims to 96.3 percent.

A great deal of concern has been expressed about SSA's staffing reduction plans as well as the impact of systems improvements on staffing. While SSA is striving to improve productivity and achieve resource savings, these objectives are not being pursued at the expense of service to the public. It is significant that SSA received such a positive reaction from claimants, as reflected in the GAO report discussed earlier, yet SSA full-time equivalents (FTE's) will have declined 7.7 percent from FY 1983 through FY 1986. At the same time, SSA has seen improved overall processing time and quality.

PROCESSING TIMES - INITIAL CLAIMS

The Committee has requested regional and national average processing time for new claims. The following charts (Charts I and II) contain average overall processing time in days for the major Social Security claims workloads. These include:

- title II claims for retirement, survivors and health insurance (RSHI);
- title II claims for disability (DI);
- supplemental security income aged claims (SSIA); and,
- supplemental security income blind/disabled claims (SSIBD).

The RSHI and DI data are derived from the Social Security Administration (SSA) Management Information Initial Claims Record System and include all initial claims for retirement, survivors, disability and health insurance. The numbers reflect mean processing days for all claims cleared in the quarter for which the report is issued.

"Processing time" is defined as the mean of the number of days from the date of the application to the date of the allowance or denial decision. Disability processing time includes the period of time during which the case is in the Disability State Agencies for disability decision.

The SSIA and SSIBD data are derived from the Supplemental Security Income Initial Claims Report System. Overall processing time includes the mean of all initial claims for aged, blind and disabled Supplemental Security Income. The numbers reflect mean processing days for all claims cleared in the quarter for which the report is issued. SSIBD processing time includes the period of time during which the case is in the Disability State Agencies for disability decision.

Chart I contains, for comparison purposes, national overall processing time for the December 1985 quarter as well as the December quarters for the previous 2 years. Chart II contains regional processing times for the December 1985 quarter.

Chart I indicates continuing improvement in the processing time for retirement, survivors and health insurance claims. SSI aged claims have basically stabilized at around 11 days. The higher figures for title II disability claims and SSI blind and disabled claims in the December 1985 quarter, as compared to the September 1985 quarter, reflect an anticipated increase in processing time as a result of the implementation of the 1984 disability legislation.

Variations among regions in the processing of workloads have always existed and are the result of a variety of factors, including client characteristics, socioeconomic conditions, the relative performance of Disability State Agencies, geographic area served, etc. In some instances, variations can be caused by the law. An SSI claim, for example, is a much more difficult work unit in States with supplemental benefits and complex living arrangement situations than in those States which do not include those legal conditions.

Chart I

MEAN PROCESSING TIMES, CLAIMS
QUARTERLY REPORT
DECEMBER QUARTER, 1985

National Processing Times in Days

	December Quarter, 1983	December Quarter, 1984	September Quarter, 1985	December Quarter, 1985
RSHI	23.8	22.9	21.4	20.7
DI	68.6	71.3	66.0	71.2
SSIA	17.6	14.5	10.8	10.9
SSIBD	71.8	70.7	57.7	64.7

Chart II

MEAN PROCESSING TIMES, CLAIMS
QUARTERLY REPORT
DECEMBER QUARTER, 1985

Regional and National Mean Processing Times in Days - December Quarter 1985

	BOS	NY	PHI	ATL	CHI	DAL	KC	DEN	SF	SEA	National
RSHI	26.5	22.3	16.8	20.3	17.7	23.2	19.5	21.5	20.3	19.5	20.7
DI	82.1	102.4	48.6	63.8	75.9	68.0	61.6	66.8	76.6	64.3	71.2
SSIA	11.4	13.4	9.4	13.0	8.0	10.5	10.9	10.2	9.7	8.9	10.9
SSIBD	67.5	95.5	54.7	61.0	61.7	59.5	46.4	59.9	69.0	55.3	64.7

PROCESSING TIMES - APPEALS

The Committee has requested regional and national average processing time for claims in the Appellate process. The following (Chart III) indicates processing times for Disability Insurance (DI) reconsideration requests and all hearing requests.

Reconsiderations are the first step in the appeals process whereby a claimant requests that a decision (usually a denial) be reviewed. Chart III includes data on processing times for DI reconsiderations only; other reconsideration times are not available. The source for this data is the SSA Management Information Initial Claims Record System. Processing time for reconsiderations is the mean of the number of days from the date of the reconsideration request to the date of the reconsideration decision. The data shown on Chart III reflect processing times for all DI reconsiderations on which final decisions have been made in the quarter for which the report is issued.

Hearings are the second step in the appeals process whereby the claimant requests that an unfavorable reconsideration decision be reviewed by an Administrative Law Judge. The data in Chart IV are derived from the Office of Hearings and Appeals Case Control System. The processing times for hearing cases include Continuing Disability Review (CDR) cases and hearings requests on title II and title XVI initial claims and postentitlement actions. Also included are processing times for Appeals Council and District Court remands that are returned to an Administrative Law Judge for additional evidence or reconsideration, etc. The processing times for these cases are measured from the date of the Appeals Council or Court remand order. Other cases are measured from the date of the request for hearing until final dispensation.

Information for prior periods has also been provided on a national level for purposes of comparison on Charts III and IV. The higher December 1985 quarter figure for disability reconsiderations reflects an expected increase in processing time as a result of implementation of the 1984 disability legislation on mental impairment cases.

Chart III

MEAN PROCESSING TIMES, DI RECONSIDERATIONS
QUARTERLY REPORT
DECEMBER QUARTER, 1985

National Processing Times in Days

	December Quarter, 1983	December Quarter, 1984	September Quarter, 1985	December Quarter, 1985
DI Recons.	50.3	50.6	50.7	56.6

Regional Processing Times in Days

	BOS	NY	PHI	ATL	CHI	DAL	KC	DEN	SF	SEA	National
Quarter Ending 12/85	73.1	86.2	41.8	45.5	59.1	48.9	59.4	53.3	65.6	54.2	56.6

Chart IV

MEAN PROCESSING TIMES, HEARINGS
QUARTERLY REPORT
DECEMBER QUARTER, 1985

National Processing Times in Days

	December Quarter, 1983	December Quarter, 1984	September Quarter, 1985	December Quarter, 1985
Hearings	184	168	160	154

Regional Processing Times in Days

	BOS	NY	PHI	ATL	CHI	DAL	KC	DEN	SF	SEA	National
Quarter Ending 12/85	143	135	159	139	161	159	155	162	168	197	154

WORKLOADS PENDING

Workloads pending final disposition have an effect on the overall time required to process claims and other beneficiary actions. During fiscal years 1984 and 1985, the total value of work pending in SSA's major operating components remained nearly constant after decreasing about 25 percent from the fiscal year 1983 level. However, during the first quarter of fiscal year 1986, a significant increase occurred in disability claims workloads, while the pendings for many other major workloads declined below the level achieved at the end of FY 1985. As explained in the fiscal year 1987 budget justification (page 166), 185,000 mental impairment cases denied since enactment of P.L. 98-460 in October 1984 are to be reviewed again under new rules for evaluating mental impairments. During the first quarter, training was conducted and each Disability State Agency was evaluated to make certain that the new evaluation criteria would be understood and uniformly applied. Processing of those disability cases was delayed; they were retained in the district offices pending completion of the training and Disability State Agency validation process based on new regulations pertaining to mental impairment cases which were published in August 1985. It was decided that this delay was warranted to ensure correct processing of these cases in accordance with the 1984 Amendments. Those cases are being processed now. After this temporary backlog is eliminated, the claims pending are expected to return to approximately the same level experienced during fiscal year 1985. The small increase in the pending level of certified earnings records is an insignificant seasonal variation.

Chart V

Workloads Pending

	FY 1984	FY 1985	December 1985 Qtr.	Percent Change from FY 1985
Field Offices				
RSHI claims	151,400	155,400	118,800	-23.6
DI claims	260,000	233,400	275,800	+18.2
SSI aged claims	12,500	6,100	3,900	-36.1
SSI blind and disabled claims	169,000	217,500	263,400	+21.1
RSHI and SSI overpayments	122,400	86,000	83,000	- 3.5
Program Service Centers				
RSHI claims	91,800	85,600	60,700	-29.1
Overpayments	54,600	30,600	23,300	-23.9
Office of Disability Operations				
DI claims	48,500	35,600	30,500	-14.3
Office of Central Records Operations				
Certified wage records for RSHI and DI claims	85,800	58,400	65,700	+12.5
Office of Hearings and Appeals				
Hearings	107,800	107,600	91,400	-15.1

Abbreviations found in Chart V

- RSHI - Retirement, Survivors and Health Insurance, title II
- DI - Disability Insurance, title II
- SSI - Supplemental Security Income, title XVI

POSTINGS OF EARNINGS

The Committee requested data on the postings of earnings to a wage earner or self employed person's individual account. The following indicates the current status of wage record postings as of the December 1985 quarter.

- SSA has completed the processing of Tax Year 1984 annual wage reports. 1985 annual wage reports are currently being filed and will be posted and reported in future quarters.

- As part of the 1985 postings process, 175.5 million 1984 wage items have been posted to employee earnings records.

- In 1982, there was a 39 month backlog of uncredited earnings. This backlog has been eliminated and wages are now credited to the proper earnings record within 9 months of receipt. The goal is to reduce this time further.

- For the tax year 1985 wage reporting cycle - starting this spring - SSA plans further improvements in processing of wage items including posting wages weekly rather than quarterly.

- Beneficiaries who work after retirement may be due increases in their benefits because of additional earnings. The improved wage posting operation has resulted in over 2 million beneficiaries with additional earnings receiving the benefit increases to which they are entitled without the delay experienced in the past.

- It is anticipated that the timeframes for the posting of earnings will be greatly reduced as a result of the initiative to increase the use of magnetic media for reporting wages rather than paper W-2 forms. For tax year 1984, the number of wage items reported by employers via magnetic media increased by nearly 9 million. For tax year 1985, it is estimated that 8 million more records will come in on magnetic media. Regulations proposed by IRS requiring certain employers to report on magnetic media should substantially reduce the wage reports we receive on paper.

- Because of the improvements in wage reporting, the discovery and prevention of overpayments has been significantly enhanced.

ACCURACY

The Committee requested information on the accuracy of payments as measured by existing quality control programs. SSA collects accuracy data in two broad areas:

1. One is the accuracy of payments for retirement and survivors insurance program (RSI), and for Supplement Security Income payments (SSI).

2. The second area involves the accuracy of the disability decisions made in Disability State Agencies.

The following sections deal with these two areas of accuracy.

PAYMENT ACCURACY

The SSA Quality Review system is designed to provide statistically reliable information on how well the programs administered by the Social Security Administration (SSA) are operating. Each month a random sample of cases is selected and reviewed. The data from these reviews provide program administrators with:

- Information regarding the accuracy of program dollar payments;
- Information on the adequacy of Agency adjudicative processes that serves as the basis for recommendations for improving procedures and instructions, modifying policies and strengthening program administration.

These data are collected by two separate and distinct quality review systems. The focus of the Payment Review System is the overall accuracy of payments made by the programs. The focus of the Process Review System is adjudicative accuracy and measures the current adherence of operating components to program policies and procedures.

Statistical data from payment accuracy and process reviews are analyzed to arrive at an overall picture of program accuracy. Statistical data are analyzed in the light of other available information to identify error trends as well as major types and causes of error. This information is then utilized to forecast future error rates and to identify areas for corrective action.

Payment Quality Review System - A sample of the payments made is selected for review and all eligibility and payment factors are redeveloped to determine:

- o payment accuracy;
- o causes of incorrect payments;
- o why incorrect payments occur; and,
- o responsibility for incorrect payment (recipient or Agency).

Through a random sample of cases on the rolls, the payment review sample provides information on the accuracy of SSI and RSI payments and management information as to types and causes of errors.

The RSI payment sample (Chart VI) consists of an annual random sample of 2,000 cases selected from current payments. Each case represents one Social Security account number and all persons who are receiving benefits on that account. The SSI payment sample (Chart VII) consists of an annual random sample of 16,000 cases from current payments. The sample of SSI cases is considerably larger because of the nature of the program. Considerable change in beneficiary circumstances as well as the numerous factors which affect eligibility or benefit amounts are a part of this and other needs-based programs. Therefore, a much larger sample is required to monitor the accuracy of both federal and State SSI payments.

Eligibility factors are verified through direct contact with the beneficiary and collateral contacts to verify eligibility-related factors. After all the required eligibility/payment proofs are obtained, a payment accuracy determination is made. In instances where it is determined the person received an incorrect amount of benefits, benefit levels are corrected and additional decisions are made as to why the incorrect payment occurred.

The results of the review are transmitted to the Quality Assurance computer system to generate statistical data. The data are analyzed to identify trends and to develop recommendations to improve future payment accuracy.

Chart VI

RSI PAYMENT ACCURACY

Year	Percentage of Dollars Paid Accurately
1981	99.5%
1982	99.6%
1983	99.5%
1984	99.5%
1985	99.5%

Total beneficiaries as of December 1985: 33.1 million

The Retirement and Survivors Insurance (RSI) payment accuracy has remained relatively stable over the past five years. The basic factors affecting entitlement are age and lifetime earnings. Age records now exist for virtually all of the population and earnings are reported annually to SSA by employers. After entitlement, factors that can affect payment are, the annual earnings test for those beneficiaries working, and recomputations of benefit rates which are often required.

Chart VII

SSI PAYMENT ACCURACY

Period	Percentage of Dollars Paid Accurately
10/81 - 03/82	95.2%
04/82 - 09/82	95.9%
10/82 - 03/83	95.9%
04/83 - 09/83	96.4%
1984 (10/83 - 09/84)*	96.7%*
1985 (10/84 - 09/85)**	96.7%**

Total beneficiaries as of December 1985: 4.1 million

*The sample was reported on a six month basis through FY 1983 and was moved to an annual basis beginning FY 1984.

**Preliminary figure--final figure to be available by end of March 1986.

The SSI payment accuracy rate for the last fully completed period (FY 1984) is 96.7 percent. Preliminary data for the latest period indicate the accuracy rate has remained at 96.7 percent. Final data should be available within the next 30 days. These rates reflect a steady upward trend in SSI payment accuracy and represent the highest payment accuracy ever attained for the SSI program. The increase in payment accuracy can be attributed to a number of causes, including successful identification of high error prone case categories and strategies to correct the error causes, automatic matching operations, and improved field office interviewing and case processing techniques.

Process Review System - Through a random sample of newly entitled beneficiaries, the process review system provides information on the accuracy of current adjudication of SSI and RSI initial claims and management information as to the types and causes of error.

The Retirement Survivors Insurance sample currently consists of 57,500 cases annually and the SSI sample currently consists of 48,000 cases annually.

Each sample case receives an intensive review of all casefile documentation related to the initial claim. The casefile is reviewed to determine the adequacy of documentation and adjudicative decisionmaking measured against applicable program policy and procedural requirements.

The results of the review are transmitted to the Quality Assurance computer system to generate statistical data. The data are analyzed to identify trends and to develop recommendations to improve future processing activities. Recommendations are reported to the appropriate policy and operating components on a regular basis.

Chart VIII

RSI PROCESS ACCURACY

Quarter Ending	Percentage of Cases Paid Accurately
03/85	96.8
06/85	97.3
09/85	97.3
12/85	96.9

RSI Process Trend Analysis - RSI process accuracy for initial claims has remained relatively stable for 1985. These rates represent the numbers of cases which are free of dollar error.

Chart IX

SSI PROCESS ACCURACY

Quarter Ending	Percentage of Cases Paid Accurately
03/85	97.2
06/85	98.0
09/85	98.2
12/85	98.1

SSI Process Trend Analysis - SSI process accuracy for initial claims has increased slightly for calendar year 1985. Major improvement was noted in the 06/85 quarter, followed by an increase in accuracy in the 09/85 quarter to an accuracy rate of 98.2 percent. The rate remained stable in the 12/85 quarter at 98.1 percent. These rates represent the number of cases which are free of dollar error.

DISABILITY QUALITY ASSURANCE

Title II and title XVI disability determinations are made by Disability State Agencies under authority of section 221 (a) of the Social Security Act. The Act provides that States must make disability determinations in accordance with the standards and criteria contained in the law and regulations and in other written guidelines of the Secretary. The Act also provides that the Secretary shall promulgate regulations specifying performance standards, including the rate of accuracy of decisions.

Initial decisions are the decisions as to whether a claimant meets the disability requirements to receive benefits when the claim is initially filed. The reconsideration decision is a review of the initial determination. In the vast majority of cases it is a denial of benefits at the initial level which is being appealed by the claimant. Both decisions are rendered in Disability State Agencies.

Section 221 of the Act provides the statutory basis for Federal quality reviews of State disability determinations. The Social Security Administration conducts the quality assurance (QA) reviews in the 10 regional disability quality branches (DQB).

An ongoing random selection of each State Agency's cases, both title II (DI) and title XVI (SSI), is routed to the DQB after the State Agency decision but before the release of the notice to the claimant. The DQB review involves a complete examination of the casefile including an independent review of the medical evidence by Federal physicians. Cases with deficiencies which affect the outcome of the payment decision or amount of benefits are returned to the State Agencies for correction.

The measure of the quality of State Agency adjudication is the QA accuracy rate. The accuracy rate is the percentage of QA cases reviewed in which the casefile establishes that the State Agency correctly awarded or denied benefits for an initial claimant or correctly ceased or continued benefits for a beneficiary. Inaccurate cases include State Agency decisions which should either be:
a) reversed based on the existing casefile evidence; or, b) further documented because the Federal reviewer cannot determine whether payment or nonpayment of benefits is appropriate.

For purposes of comparison, accuracy data for prior periods have been provided. Quarterly data have been supplied for initial decisions; however, reconsideration data are presently available on a semiannual basis only. The reconsideration accuracy data are produced every 6 months, but are based on 12 months of data.

Chart X

DI PROCESS ACCURACY

Initial Disability Claims

Period	Percentage of Cases With No Decisional/Documentation Errors
03/85 Quarter	96.1
06/85 Quarter	96.0
09/85 Quarter	96.3
12/85 Quarter	96.3

Reconsiderations

07/83-06/84	94.1
10/83-09/84	94.2
04/84-03/85	94.7
10/84-09/85	95.4

Total Disability Insurance Beneficiaries as of December 1985: 3.9 million

WAITING TIMES AND COMMUTING TIMES

The Committee has requested that SSA provide it with indicators of convenience to the public of its facilities as measured by commuting and waiting times.

In January 1986, SSA field offices nationally began collecting data on waiting times in Social Security offices for purposes of this report. These data will be included in the March 1986 quarterly report.

Regions will also collect data on commuting times before and after changes in field facilities. These data will be included as appropriate in this report as facility changes occur.

The formats for reporting waiting time and commuting time are attached and will be completed as appropriate in subsequent reports.

Chart XI

WAITING TIMES IN DISTRICT AND BRANCH OFFICES
QUARTERLY REPORT
____________QUARTER, 1986

NOTE: THIS INFORMATION WILL BE SUPPLIED IN THE FOLLOWING REPORT. DATA NOT AVAILABLE AT THIS TIME.

	National Average
I. Number of Visitors	
II. Average Waiting Time	
III. Number of Visitors Who Waited	
A. 0 - 5 Minutes	
B. 6 - 15 Minutes	
C. 16 - 30 Minutes	
D. 31 - 45 Minutes	
E. Over 60 Minutes	
IV. Number of Visitors Who Completed Applications for An SSN And Did Not Have To Be Interviewed (Not Included Above)	

Source and Study:

Brief Discussion of Statistical Methodology:

Every full-service SSA facility tracks the waiting time of office visitors once per week for 30 minutes at a time randomly selected for each site. In future reports statistical validity on a national level will be estimated based on the number of visitors.

Chart XII

COMMUTING TIMES
FOR CHANGED FACILITIES

NOTE: THIS INFORMATION WILL BE SUPPLIED IN THE EVENT OF ANY FACILITY CHANGE.
NOT APPLICABLE FOR THIS REPORT.

FACILITY____________________

DATE OF CHANGE____________________

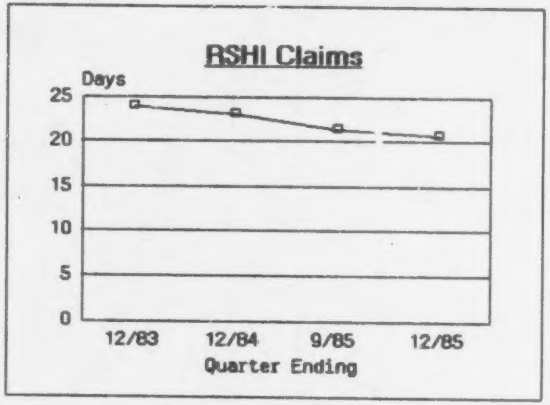
NATURE OF CHANGE____________________

AVERAGE COMMUTING TIME PRIOR TO CHANGE__________

AVERAGE COMMUTING TIME AFTER CHANGE__________

Source of Information and Methodology:

Mean National Processing Times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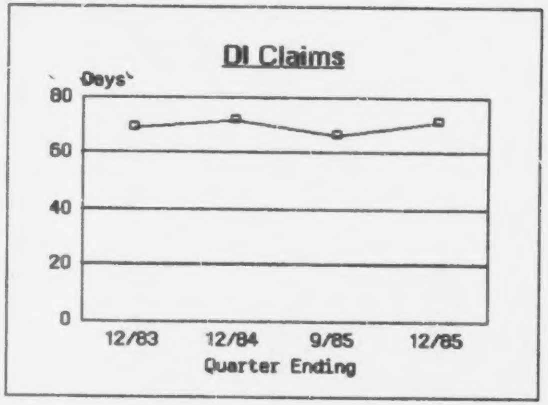
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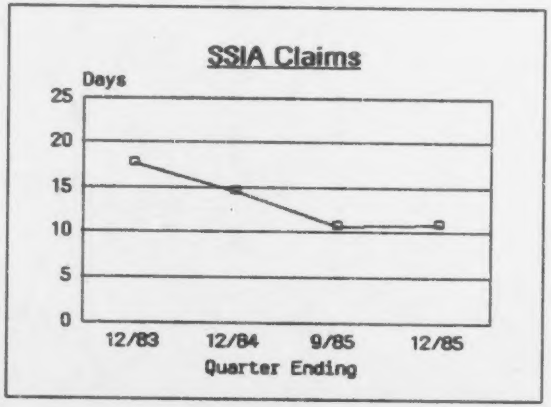
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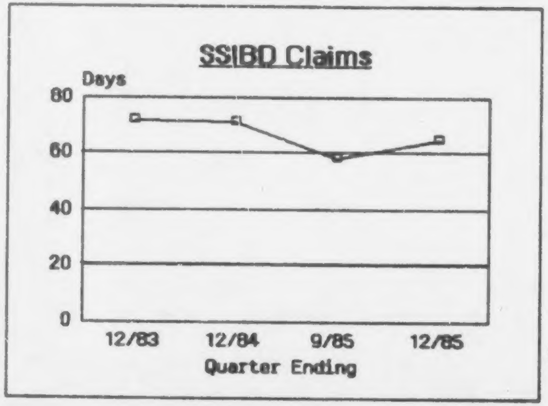
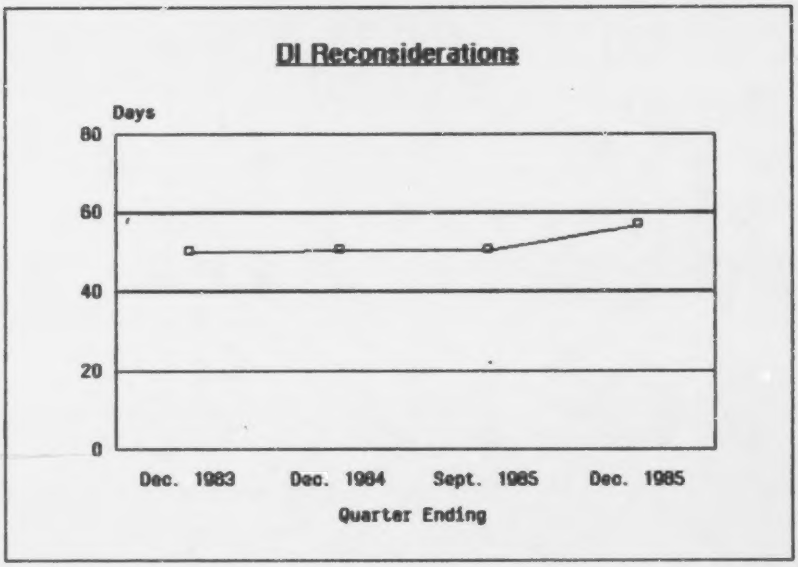
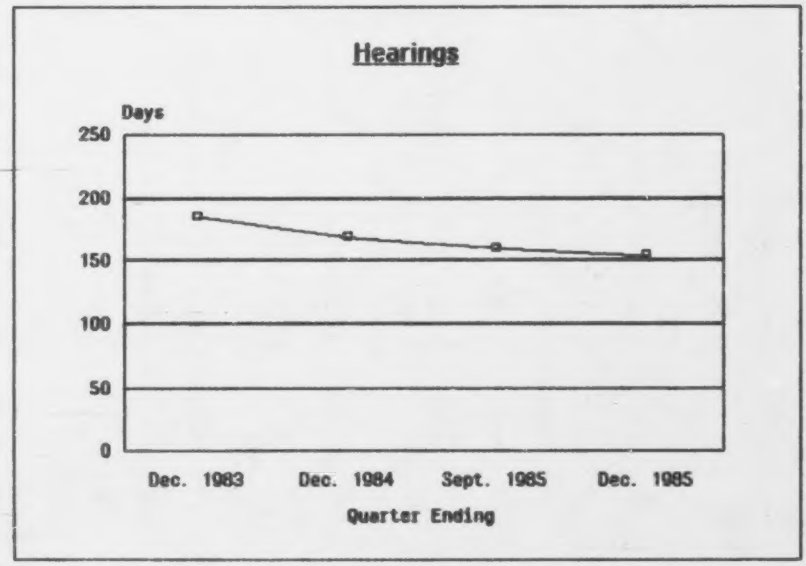

SSIBD Claims

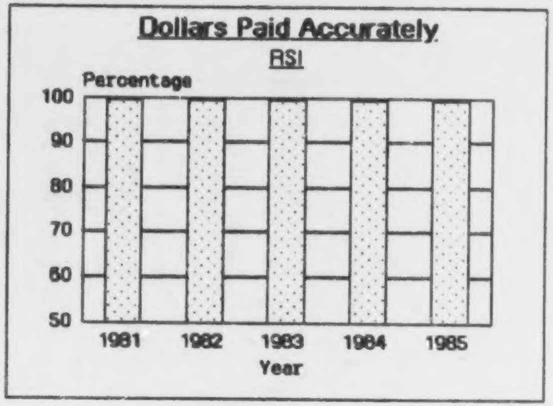
26

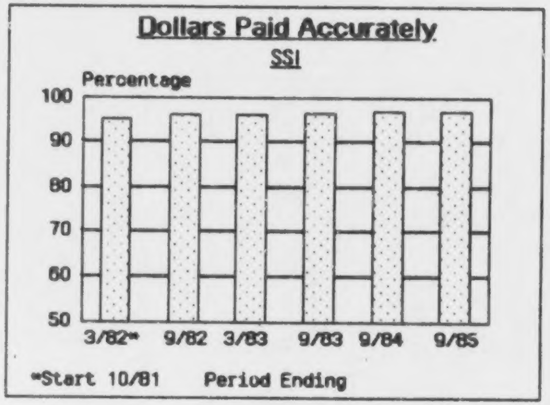
Mean National Processing Times



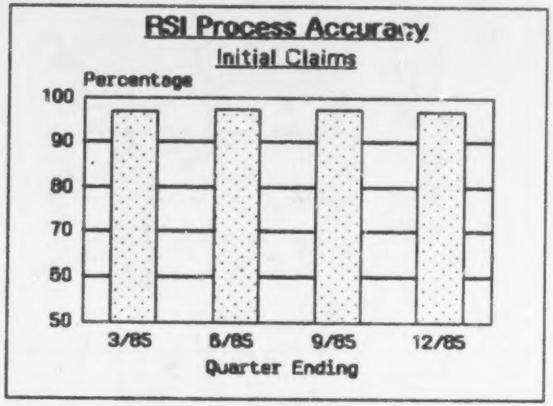


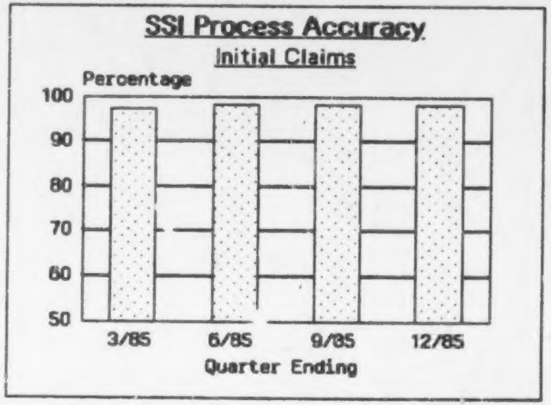
Accuracy


Dollars Paid Accurately
RSI


Dollars Paid Accurately
SSI

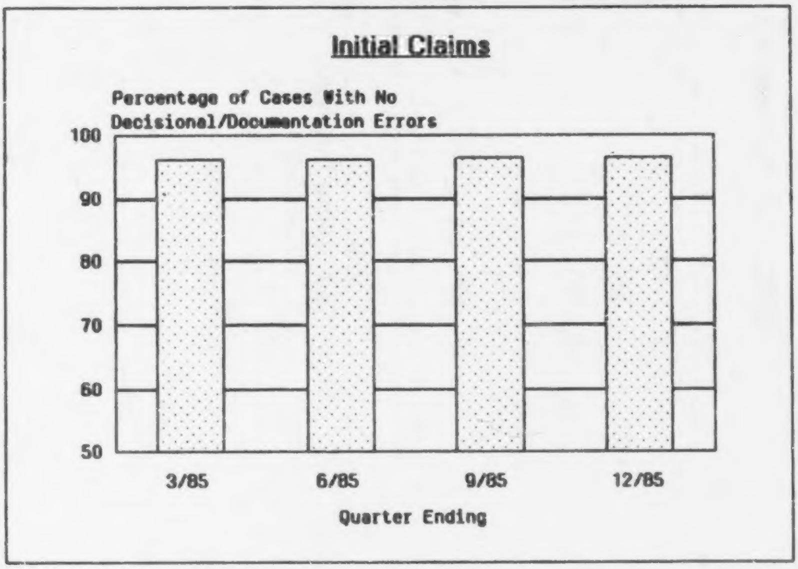
*Start 10/81

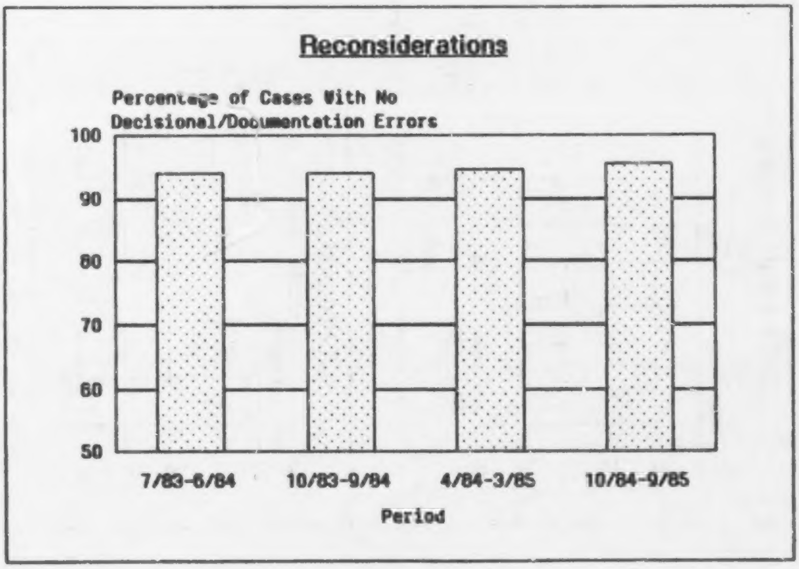

RSI Process Accuracy
Initial Claims


SSI Process Accuracy
Initial Claims

27 —

Disability Decisional Accuracy





SUMMARY OF QUARTERLY REPORT

Mr. **Natcher**. Would you summarize briefly now for the committee the results of this study?

Mr. **Sabatini**. The committee asked us to report on a quarterly basis and provide information on items such as regional and national processing times for retirement and survivors insurance, disability insurance, and supplemental security aged, blind and disabled claims, disability reconsiderations and administrative law judge hearings.

They also asked for information concerning pending workloads in our operating components, the status of posting earnings to individual earnings records and payment and process accuracy.

In future reports, we will be checking and gathering information and reporting on client waiting times and on commuting times for facility changes.

When we compare the data in this report to earlier periods, for the most part, the report shows improvements in processing times, decreased workload backlogs, significant recent improvements in the timeliness of posting earnings, and stability or improvement in the payment and process accuracy rates.

Some exceptions are noted in the disability area, when the December 1985 quarter is compared with the September 1985 quarter. The number of disability claims pending increases in the December quarter, and this is due to the delay in processing 185,000 mental impairment cases held for re-review until we could validate the new procedures for processing them under the revised mental impairment regulations.

Also, processing times for disability claims have increased in the December quarter as a result of the implementation of the Disability Benefits Reform Act of 1984.

STAFFING LEVELS

Mr. **Natcher**. Would you review for the committee your staffing levels over the last three years, Mr. Sabatini, and your current staffing plans for 1986 and 1987?

Mr. **Sabatini**. For 1987, we are requesting 73,270 full-time equivalents, and we are asking for 78,580 workyears in the Limitation on Administrative Expenses account. In 1986, we estimate that we will use 76,169 full-time equivalents, and 79,013 workyears.

In 1985, we actually used 77,741 full-time equivalents, and 82,131 workyears.

In 1984, we used 79,951 full-time equivalents, and 86,189 workyears.

Mr. **Natcher**. Does Social Security have a long-term staffing plan which projects personnel needs through the next three to five years?

Mr. **Sabatini**. Mr. Chairman, we have a target or a goal of reducing the size of the agency by about 20 percent over a six-year period. This is the now well-known plan that we have discussed on several occasions.

That 17,000 reduction in FTE's represents a target that we expect to achieve through improvements or efficiencies in our operation, including the modernization of our data processing system.

The 17,000 reduction is exactly as I have described it, a goal, an indication of the direction in which we are heading. It is consistent with the government-wide 20 percent improvement in productivity that is discussed in the management report that accompanied the President's budget submission. We think that it is a realistic goal, and it is one that we will continue to work towards.

However, we have said on a number of occasions, and the Secretary has reiterated this, that we are not going to make that reduction at the expense of service to the public. We will continue to provide the traditional high levels of service we have always provided, and we are confident we can do that.

We are proceeding very cautiously, and we are going to deal with the specific elements of that reduction on a year-by-year basis, as we go through the budget cycle each year.

Mr. NATCHER. Was the 17,000 figure developed internally in the social security system or was it assigned by the Office of Management and Budget?

Mr. SABATINI. The 17,000 figure came as a result of discussions and negotiations with the Office of Management and Budget. As I have indicated, the 17,000 goal that we have established is consistent with the overall goal that the Administration has set for the Executive Branch in government, and that is the realization of a 20-percent improvement in productivity over a period of time.

WORK YEAR AND FTE REDUCTIONS

Mr. NATCHER. The President's fiscal year 1987 budget includes a specific staffing reduction of 433 workyears, and 2,899 full-time equivalents. How were these specific staffing proposals developed?

Mr. SABATINI. The workyear reduction represents, primarily, estimated savings that we hope to derive as a result of the implementation of our modernized claims process and other improvements.

The net reduction reflects a number of pluses and minuses. In 1987, we project an increase of 1,307 workyears as a result of increases in workload volumes, and we project savings of 2,046 workyears as a result of automation and streamlining activities that are going to be taking place within the agency.

We also anticipate savings of 1,315 workyears coming from improvements in the balance of workloads and employment in our operating components and a slight increase of 46 workyears in 1987 as a result of making some changes in operational support functions.

Mr. NATCHER. Mr. Conte, I yield to you.

NOMINATION OF NEW COMMISSIONER FOR SSA

Mr. CONTE. Mr. Sabatini, it is good to see you again. Whenever the Department needs an experienced hand to carry the ball forward, you have been there on the job. I know the Department gives awards every year for excellence, and I think you ought to be up there in contention for that top prize every year.

I want to welcome you here.

Mr. SABATINI. Thank you, Mr. Conte.

Mr. CONTE. The name of Dorcas Hardy has just been sent up yesterday to be the Commissioner of Social Security; is that correct?

Mr. SABATINI. Yes, sir.

Mr. CONTE. How long has it been since there has been a confirmed Commissioner at Social Security?

Mr. SABATINI. Approximately two and a half years.

FAMILY SUPPORT ADMINISTRATION

Mr. CONTE. Also yesterday, the Secretary announced the division of the Social Security Administration into two operating divisions; one, continuing Social Security and SSI under the roof of the Social Security Administration; and the other, creating a new major operating division, the Family Support Administration, to house AFDC, Low Income Energy, Child Support Enforcement, Refugees, CSBG and WIN.

When would this new Family Support Administration go into existence, and who will be in charge?

Mr. SABATINI. I think that the anticipated start-up time is to be sometime this April, and no one has been named to head that organization thus far.

Mr. CONTE. Now, the Secretary's statement on the reorganization said that this new division is consistent with the President's desire to strengthen the family. How will this strengthen the family?

Mr. SABATINI. Mr. Conte, I think that this step being taken by Secretary Bowen is a very positive step. It is taking programs that have a programmatic commonality and a commonality in the clientele served by each of these programs, and putting them in a single organization.

In addition, each of these programs is administered through a partnership relationship with the States. This will put all of these programs together, and provide a single focal point for the States in dealing with the Federal government about programs that have a common clientele. We will be able to improve relationships with the States by giving them a single focal point within the Department to deal with on these common issues.

Mr. CONTE. At the same time, we see the Administration embarking on a major effort to study the welfare system, and we see reports in the press about the Administration's idea of consolidating many of these income support programs into a single block grant. Is this reorganization a step in that direction?

Mr. SABATINI. Yes, I think that this reorganization is consistent with the concept of eliminating to the extent possible, any of the duplication, overhead or conflicts that may exist in these programs that have a basic common purpose. The Secretary has taken the first step by taking the core of these programs and putting them together in a single administrative body within his Department.

PLAN TO REDUCE EMPLOYMENT AT SSA

Mr. CONTE. When the Secretary was up, we began discussing the issue of the five-year plan to reduce the number of employees in the Social Security Administration by 17,000, or 20 percent. 1987 would be the third year of that plan, is that correct?

Mr. SABATINI. Yes sir, 1987 will be the third year of a six-year plan.

Mr. CONTE. And the plan is to reduce the number of employees by 2,899; is that correct?

Mr. SABATINI. The 1987 request shows a reduction of 2,899 FTE's from the 1986 level.

Mr. CONTE. Now, for fiscal year 1986, you are continuing along with the plan to reduce the number by 1,572, even though Congress moved $30 million out of the contingency fund into the operations fund to add back 1,000; is that correct?

Mr. SABATINI. Yes, sir.

Mr. CONTE. And it is your contention that service will not be disrupted, and so you would not have gone along with Congress, even without Gramm-Rudman-Hollings, but with it, now that reduces your funds by $140 million, so you couldn't do it anyway; is that correct?

Mr. SABATINI. Well, when the Congress gave us that additional $30 million, Mr. Conte, we said that we would take a look at it, and keep an open mind about whether or not we needed it. We immediately came forward to the Congress and indicated that we were deferring the expenditure of that $30 million until at least March 31.

With enactment of the Gramm-Rudman-Hollings Act, then the additional $30 million became part of the money that was used for sequestration and it is now taken out. It is going towards the $144 million total sequestration that we have in the limitation account.

Mr. CONTE. You are lucky to have that cushion then?

Mr. SABATINI. We thank you.

CONTINGENCY FUND

Mr. CONTE. Tell us a little about the contingency fund in fiscal year 1986. How much remains in the contingency fund after Gramm-Rudman, and why couldn't you move funds out of the contingency to slow down the reduction, as Congress intended?

Mr. SABATINI. Well, the contingency fund will be reduced by $6.2 million as a result of Gramm-Rudman-Hollings. One of the things that was very clear is that under Gramm-Rudman-Hollings, the sequestration had to be applied uniformly across programs, projects and activities. Therefore, while the contingency fund was subject to sequestration, only a 4.3 percent reduction could be taken from the contingency fund.

Our appropriation identified the contingency fund, our ADP and telecommunications expenses, and an "all other" category as separate activities for purposes of sequestration.

Mr. CONTE. How much is left in the contingency fund?

Mr. SABATINI. $138.8 million.

EMPLOYMENT REDUCTIONS AND CLOSING FIELD OFFICES

Mr. CONTE. With regard to the overall plan to reduce employment by 17,000, how many of that total have been and will be taken out of district offices?

Mr. SABATINI. I would have to provide the exact numbers for the record, but what we have been striving to do is, through the redeployment of people to the maximum extent, use our resources in the direct operating portions of the agency, and continue doing that.

Mr. Conte. My biggest fear is, even though you tell us that you will not close district offices, that a reduction of this magnitude, 20 percent, will reduce your employment by such a large degree, that you will find yourselves having no choice but to close offices.

That fear is further reinforced by the manpower analysis you provided us, which looks at fiscal year 1986 and fiscal year 1987, but doesn't tell us what is in store for fiscal year 1988 and fiscal year 1989, when you will be reducing employment by another 6,925.

How can we be sure, Mr. Sabatini, that this proposal is not taking us down the road where the reductions will be of such magnitude that there will be no choice but to close district offices?

Mr. Sabatini. Well, I think the fact that we are not showing predetermined cuts beyond 1987 is an indication of that.

What we are saying is that we are going to strive, over a six-year period, to improve our processes; and through improved procedures and increased automation we will improve our productivity so that we can provide the same level of service we have been able to provide traditionally but at a 20-percent savings. That 20-percent savings is consistent with the goal and the direction that is set for the Executive Branch by the President.

I have said, and Commissioner McSteen, Secretary Bowen, and former Secretary Heckler have said over and over that we are not just going to rush down this path and make these reductions at the expense of service or at the expense of the employees.

We are going to do it in a deliberate, very cautious way, and take each step very deliberately; and lay out the details each year in the budget cycle.

If there are problems, we will adjust our plan to those problems.

At the close of this fiscal year, the Social Security Administration will be approximately 8 percent smaller than it was three years ago. By the same token, every measure that we have indicates that our service is as good or better than it has ever been.

Furthermore, those are our numbers, and you can look at them with some skepticism, but they are also supported by the GAO report on the quality of services delivered by SSA.

Mr. Conte. That GAO report came out before these cuts were started, though, 1984.

Mr. Sabatini. Yes. But I am saying we have come down 8 percent since 1983.

Mr. Conte. I know it.

Mr. Sabatini. But we also were reducing employment during 1984 when the surveys were conducted. We will be 8 percent smaller at the close of this fiscal year than we were three years ago.

STATUS OF THE TRUST FUNDS

Mr. Conte. One last question, if I may, Mr. Chairman? What do we have in the Social Security Trust Fund right now?

Mr. Sabatini. At the end of fiscal year 1985, the reserves in the OASI Trust Fund were $33.9 billion, and in the disability fund, $5.9 billion. The changes that were made in the Social Security Amendments of 1983 are working.

The trust funds are in good shape, and the program is in good shape, and will continue to be in good shape in the future.

By 1991, it is anticipated that the OASI Trust Fund will have $234 billion, and the DI Trust Fund $21.2 billion in reserve funds built up.

DISINVESTMENT OF THE TRUST FUNDS

Mr. EARLY. When the Social Security Trust Fund was disinvested last year to meet the government's immediate obligations, what was done to insure that the interest associated with the amount borrowed was also returned to the trust fund?

Mr. SABATINI. The Gramm-Rudman-Hollings Act contained a provision that made the trust funds whole and restored any lost interest.

Mr. EARLY. The total amount disinvested along with the interest has now been restored?

Mr. SABATINI. Yes, sir, on December 31, 1985, the trust funds received $381.9 million in income as a result of reimbursement for lost interest due to earlier disinvestments.

LOW INCOME HOME ENERGY ASSISTANCE PROGRAM

Mr. EARLY. I see again this year OMB directed HHS to release only 90 percent of the States' low income energy assistance allocation during the first two quarters. For the colder States, winter is when they need the money.

Has that been corrected?

Ms. ROSS. Yes, Mr. Early. OMB did include a requirement with the apportionment that we restrict States to 90 percent of their total funds available for the year for the first two quarters.

Some States have requested an additional amount beyond the 90 percent, and we consider these requests. We have resolved four of those requests so far, and some are pending right now, but we anticipate we will be able to resolve them.

Mr. EARLY. You have dealt with Massachusetts?

Ms. ROSS. I believe the Massachusetts request is pending right now.

Mr. EARLY. Do you have any idea what the timetable to deal with that is? The State comes up with $17 million to supplement that program.

Ms. ROSS. Yes, sir, I am well aware of the fact that the State of Massachusetts supplements the LIHEAP Program. We are reviewing the request for additional funds and I am tracking the situation. As soon as the requests come in from the States, we review them. I would be happy to inform you when the Massachusetts request is resolved.

DISBURSEMENT OF EXXON FUNDS

Mr. EARLY. Would you please?

I would appreciate that. Has the Department of Energy received the statements of assurance from the States to allow the Department to disburse the Exxon settlement funds?

Ms. Ross. The Department of Energy did disburse the Exxon settlement funds Thursday, March 6, Mr. Early. They were under court order to do so.

Mr. Early. Do you have a breakdown of how much each State will be receiving under the distribution?

Ms. Ross. We do have a breakdown of the distribution and will supply it for the record.

[The information follows:]

Distribution of Exxon Funds

Each State's share of the Exxon oil overcharge funds distributed by the Department of Energy is as follows:

State	*Amount*
Alabama	$32,192,086.26
Alaska	8,272,460.20
American Samoa	371,275.67
Arizona	21,565,619.62
Arkansas	25,949,670.45
California	194,717,034.50
Colorado	22,715,884.22
Connecticut	34,900,268.97
Delaware	9,944,769.60
District of Columbia	4,603,515.75
Florida	98,114,523.64
Georgia	46,625,490.97
Guam	3,099,681.29
Hawaii	14,482,089.88
Idaho	8,690,739.43
Illinois	96,105,505.93
Indiana	51,631,387.53
Iowa	27,423,669.23
Kansas	23,958,453.17
Kentucky	27,438,633.15
Louisiana	51,536,267.21
Maine	15,094,373.28
Maryland	36,415,978.69
Massachusetts	70,340,939.14
Michigan	70,991,489.94
Minnesota	36,066,224.67
Mississippi	28,378,643.38
Missouri	41,516,281.45
Montana	9,584,665.67
Nebraska	15,504,944.23
Nevada	8,767,274.85
New Hampshire	9,797,536.77
New Jersey	75,432,931.59
New Mexico	13,692,730.49
New York	159,874,589.05
No. Mariana Islands	192,061.70
North Carolina	47,029,796.82
North Dakota	7,721,443.24
Ohio	79,740,285.12
Oklahoma	26,234,258.14
Oregon	20,721,692.22
Pennsylvania	96,803,642.42
Puerto Rico	20,053,948.64
Rhode Island	8,005,286.31
South Carolina	25,187,596.62
South Dakota	7,501,993.25
Tennessee	34,603,233.87
Texas	157,187,086.87
Utah	12,454,477.95
Vermont	5,005,193.65
Virgin Islands	9,951,205.30

State	*Amount*
Virginia	53,376,861.04
Washington	32,121,634.15
West Virginia	12,902,924.70
Wisconsin	36,966,568.55
Wyoming	8,874,385.60

Mr. EARLY. How much money was there overall; how much was distributed and roughly how much was lost to administrative costs?

Ms. ROSS. I can tell you that roughly $2.1 billion was made available in the Exxon case. There is a prohibition on using the Exxon funds for administrative expenditures, just as there was with the Warner amendment funds.

Mr. EARLY. How will $2.1 billion be divided, where will it go?

Ms. ROSS. According to the court's ruling in the case, the Exxon funds can be spent for five different programs, the Low Income Home Energy Assistance Program and four programs which are administered by the Department of Energy—the "schools and hospitals" program, the Low Income Weatherization Assistance Program, the State Energy Conservation Program, and the Energy Extension Service.

There is the requirement that Exxon funds be spent for one or more of those programs, but no requirement that they be spent in any particular fiscal year. However, there is a prohibition against using them for administrative expenses.

Mr. EARLY. Do you know how much will be used for low-income households, heating and cooling costs?

Ms. ROSS. I don't know, because States are not required to notify us how they intend to spend the Exxon overcharge funds, because the overcharge funds do not originate from our program.

However, I can tell you when the Warner amendment funds that were released three years ago, roughly $43 million of the $200 million that was made available under Warner was used for LJHEAP, which provides heating, cooling, and weatherization assistance for low-income families. So you could project that perhaps the same percentage of Exxon funds may be used for LIHEAP, but it is simply a projection.

FAMILY SUPPORT ADMINISTRATION

Mr. EARLY. Fine.

Final question, will legislative changes be needed to implement the Family Support Administration?

Mr. SABATINI. There may be.

Mr. EARLY. Are you going to start implementing it in April?

Mr. SABATINI. We are hoping to be able to start to implement it in April. There may be some legislative changes required. That depends to some extent on exactly how the office is structured organizationally.

For example, there is a statutory requirement that the Director of the Office of Child Support Enforcement report directly to the Secretary. Depending on the structure of the new organization, there may be legislative changes necessary.

I can assure you that we will not implement anything that is not consistent with all the statutory requirements that we have to meet.

Mr. EARLY. For the record, will you include what the total cost for this fiscal year is, prior to the reorganization of those six groups, and what your total cost will be under the reorganization?

Mr. SABATINI. Sure, we will do that. We expect that the restructuring will be budget-neutral.

[The information follows:]

The total costs of the six programs being merged is estimated at $12.7 billion in budget authority in FY 1986, exclusive of sequestration. These costs will not be affected by the reorganization.

Mr. EARLY. The Secretary is probably the most impressive Secretary I heard. I hope we can work with you on that.

Thank you, Mr. Chairman.

STATUS OF THE TRUST FUNDS

Mr. NATCHER. Mr. Sabatini, I am asked questions from time to time as to the trust funds, and as to the condition the trust funds are in now, from the standpoint of carrying the Social Security Administration.

As you and I recall, we had our Social Security Amendments of 1983, and the one prior to that was either in 1977 or 1978.

The trust funds were in bad shape back in those days, Mr. Sabatini.

With the enactment of the Social Security Amendments of 1983, would it be a fair statement to say that in the year 2010, that we would have a $1.5 trillion or $2 trillion surplus in the trust funds?

Mr. SABATINI. I believe that is what the actuaries are estimating.

Mr. NATCHER. In the record, if you will please, get us a figure and place it in the record.

[The information follows:]

LONG RANGE STATUS OF THE OLD-AGE AND SURVIVORS INSURANCE (OAS) AND DISABILITY INSURANCE (DI) TRUST FUNDS

Long-range trust fund operations typically are not shown in dollar amounts because inflation makes such amounts noncomparable over time. Instead, relative measures which are comparable over time have been developed. Two examples of such measures are cost rates and income rates, which express the cost and income of the program as percentages of taxable payroll.

The cost rate is the annual outgo expressed as a percentage of taxable payroll. The income rate is the combined OASDI employee-employer contribution rate scheduled in the law, plus the rate of income from taxation of benefits, expressed as a percentage of taxable payroll. The average cost and income rates can be compared directly to measure the adequacy of the program's financing.

For the 75-year long-range projection period, the actuarial balance is the difference between the estimated average income rate and the estimated average cost rate. If this actuarial balance is positive, the program is said to have an actuarial surplus, and if negative, an actuarial deficit.

Under the intermediate (Alternative II–B) set of demographic and economic assumptions, trust fund reserves are expected to grow substantially throughout the peak earning years of the post-war baby boom generation and then to be drawn down when the baby boom generation begins to reach retirement age shortly after the turn of the century. This projection, which is generally considered to be the most likely of the four alternative sets prepared each year, reflects only a slight shortfall of income relative to outgo over the next 75 years; specifically, the long-range average income rate is about 97 percent of the average cost rate. This slight imbalance falls within the range of "close actuarial balance" and is not considered large enough to require any corrective action at this time.

Obviously, all such projections, no matter how systematically prepared, are subject to error, particularly with respect to the most distant future. However, young workers who have concerns about the long-range financial viability of Social Security should be reassured by the fact that throughout its 50-year history, adjustments in the program have been made whenever needed to guarantee the continued payment of benefits on time and in full.

Over the years, Congress and the President have never wavered in their support for the basic principles upon which the program was established in 1935. Their actions to maintain and improve the program have reflected widespread public support for the program among young and old, workers and beneficiaries. As the much-discussed aging of the U.S. population takes place over the coming decades, this support seems more likely to grow than to diminish. President Reagan reaffirmed the central role of Social Security in assuring a base of economic security to all Americans when he signed the 1983 amendments into law, saying: "This bill demonstrates for all time our Nation's ironclad commitment to Social Security."

TRUST FUND RESERVES

Mr. **Natcher**. During your tenure in the Social Security Administration, do you feel better about the trust funds, the money that is now in the trust funds, the money that will go into the trust funds pursuant to the amendments of 1983, the existing laws, do you feel better today than you felt five years ago?

Mr. **Sabatini**. Yes, sir, I think that it is very clear that the step that was taken in 1983 was a positive step. It has made the trust funds solvent, and we can now convince the younger worker that the program is here and here to stay.

Mr. **Natcher**. Mr. Sabatini, I believe you would probably agree that as far as the social security system is concerned, we probably would have never had any problems except as a result of new laws passed, placing more on the system than were intended in 1935. Would you agree?

Mr. **Sabatini**. Well, I think that the actuaries will tell you, and some that were involved in the development of the Act of 1935 are still around today, that their estimates at that time were sound. And although estimates made at the time of various changes throughout the history of the program were believed to be sound at the time, in retrospect it appears that the program was expanded without adequate funding being provided. The actuaries could not have known in advance, for example, how poorly the economy would perform in the 1970's and early 1980's.

If I have one thing that concerns me about the trust funds, it is that as we start looking to the out years, and seeing the growth in the reserves that are available, that we could start saying, here is our opportunity to expand the program, and not provide adequate funding for it. The planned growth in the reserves is going to be needed to make sure the program stays solvent for the next 75 years.

Mr. **Natcher**. Mr. Hoyer, I yield to you.

STAFFING LEVELS

Mr. **Hoyer**. Thank you very much, Mr. Chairman.

As you recall last year, there was a substantial discussion about staffing levels. That has been gone into somewhat here and if I am redundant I apologize, the Senate had a staffing floor level and the chairman felt strongly that that ought not to be adopted.

At the same time, at page 98 of our report, we indicated that before approving any further reduction in social security staff, this committee expects to receive a well-thought-out and well-documented analysis of the manpower needs of the agency.

Has that been submitted?

Mr. SABATINI. Yes, sir, it is in our budget justification, page 188 through about 193.

Mr. HOYER. Now, your FTE's, I understand from October 1985 through 1986, you expect not to exceed 76,169 as opposed to the authorized 77,349?

Mr. SABATINI. That is basically correct.

Mr. HOYER. In your proposal for the FTE level reduction of 1,180, you are going down to 76,169, correct?

Mr. SABATINI. That is the 1986 level for the limitation account.

Mr. HOYER. What will the 1987 level be?

Mr. SABATINI. It is estimated to be 73,270 FTE's.

Mr. HOYER. I am sorry. 73,270, I have got it.

Mr. SABATINI. A reduction from 1986 of 2899.

Mr. HOYER. How is that going to be attained?

Mr. SABATINI. It is coming from three or four major categories, and I can go into detail about all of the pluses and minuses for the record.

ATTRITION TO OBTAIN EMPLOYMENT REDUCTIONS

Mr. HOYER. If it is in the justification, you don't need to reiterate that for the record.

How is it going to be attained? Are there going to be any RIFs involved in this reduction?

Mr. SABATINI. No.

Mr. HOYER. All attrition?

Mr. SABATINI. Yes, we are committed to continuing to improve the efficiency of the agency; and, Mr. Hoyer, we are at a point where we can start doing that, start making some significant changes, because of the efforts of our systems modernization plan and some other things we are doing. We are at a point where we are going to turn the corner in improving service delivery.

We went for a long time at SSA without certain kinds of automated support and without modernized tools being available to our operating personnel, but yet our performance during that period was still very good. We did it because of the dedicated work force that we have, and there is no one now who is going to turn his back on those people and allow a RIF or a furlough.

We are going to retrain and redeploy our people and develop the skills necessary to use them in the places where we will need them.

CONTINUING DISABILITY REVIEWS AND READJUDICATION OF CASES

Mr. HOYER. I am going to review this further, and I might have some additional questions for you.

Let me ask you a question, if I might, regarding your continuing disability reviews.

The final regulations were effective back in December 1985, is that correct?

Mr. SABATINI. Yes, sir.

Mr. HOYER. The court has remanded approximately 10,000 cases to you. Has the readjudication process begun?

Mr. **Sabatini**. We have just started that readjudication process. We are proceeding very, very slowly in starting this readjudicative process. We have put a number of safeguards in place to make sure that cases that are being readjudicated are in compliance with not only the letter, but also the spirit of the statute, to make absolutely sure that what we have is a fair, equitable and humane process.

We did reviews of proposed decisions that the States made, so we could be absolutely sure that the regulations were being properly applied. We are proceeding slower than anticipated, but we are going to do it right and take our time.

Mr. **Hoyer**. Payments are being made during the course of the review, obviously. What is your expected completion of the review process?

Mr. **Sabatini**. The remanded court cases to which you refer are part of approximately 54,000 CDR's that will be readjudicated on a priority basis. These cases, along with 185,000 initial cases filed since October 1984 that involve mental impairments where the individuals were found not to be disabled under the prior regulations, have been flagged and they will be re-reviewed.

We are starting to work on those cases, doing it cautiously, and we hope to have most of them finished up through this fiscal year.

Mr. **Hoyer**. The highest priority cases? But when is your work planned for completion of the 10,000 cases for review?

Mr. **Sabatini**. We are hoping to have most of them finished by the end of this fiscal year.

Mr. **Hoyer**. All of them?

Mr. **Sabatini**. Those high-priority cases which include the 10,000.

Mr. **Hoyer**. Let me see if I follow you. How many total review cases are there?

Mr. **Sabatini**. The category I described is probably about 239,000 cases. Of that 239,000 there are the court remand cases you referred to, members of class action suits as well as the 185,000 mental impairment cases that I said will be listed and controlled that we are going to re-review.

That total universe, is our first priority in the reviews.

REAUTHORIZATION OF THE ENERGY PROGRAM

Mr. **Hoyer**. Okay. Let me ask you a question about the energy program. When does the authorization expire?

Ms. **Ross**. The authorization would expire this fiscal year, 1986. We are asking for authorization starting in fiscal year 1987, Mr. Hoyer.

Mr. **Hoyer**. Are you asking for a short or long-term extension?

Ms. **Ross**. We are asking for a three-year reauthorization.

Mr. **Hoyer**. Is that the present authorization?

Ms. **Ross**. It's two years, I believe.

Mr. **Hoyer**. As I understand it, you have proposed freezing the appropriation level?

Ms. **Ross**. Yes, sir, we have recommended the current funding level of $2.1 billion throughout the three-year authorization.

Mr. **Hoyer**. How many additional people will not be served as a result of that freeze?

Ms. Ross. That is a very complex issue to address because there are a number of factors that need to be considered.

First, we have a situation where energy prices are starting to go down, particularly for fuel oil this year. We also have a situation where additional funds are being made available to States, as Mr. Early and I discussed earlier, through the Exxon overcharge funds that were recently released, and potentially through other petroleum violation cases—such as the Kansas Stripper case and other such cases—that DOE is currently working on.

Given these factors, to try and predict how many households would be served is somewhat difficult. At a $2.1 billion level, we anticipate that, considering all factors, roughly the same number of households could continue to be served.

MARYLAND ATTORNEY GENERAL OPINION REGARDING EXXON FUNDS

Mr. Hoyer. Are you aware of the opinion of the Attorney General, Steve Sachs, in Maryland, with respect to the Exxon money?

Maryland is to get $36 million. Our Attorney General has advised the Legislature that those funds must be expended on energy conservation programs? Are you aware of that?

Ms. Ross. No, sir, I am not.

As I mentioned earlier in the hearing today, it is my understanding that the court order that required DOE to release those funds last Thursday, stipulated that the funds could be used for one or more of five energy programs. Our LIHEAP program is one. The DOE "schools and hospitals" program is another, and there are three other programs administered by DOE.

Mr. Hoyer. Do you have in-house counsel?

Ms. Ross. We have a General Counsel in the Department.

Mr. Hoyer. I would appreciate an opinion letter from your counsel as to the expenditure by the States of those funds.

Ms. Ross. I would be happy to do that, and I would also like to contact the Department of Energy since they are responsible for releasing those funds.

DISCRETIONARY FUNDS IN ENERGY PROGRAM

Mr. Hoyer. Fine.

Lastly, unlike AFDC and Food Stamps, child health programs, there are no discretionary funds as I understand it available in the energy program. I mean in the block grants, the idea being that this money could be used for demonstration projects and technical assistance to the various States, and the proposal is to give discretion.

What is your position, or do you have a position?

Ms. Ross. We currently don't have that kind of authority. Most of the projects one would think of coming out of discretionary monies are funded through contract or consultant services through our administrative budget.

There is certainly nothing wrong with that proposal, and there are some things that could be done. However our Federal administrative budget comes from the appropriation itself, in other words, from the $2.1 billion. Since the $2.2 million for administration is from the appropriation, any decision to set aside funds for a discretionary purpose would reduce by a commensurate amount the funds that could be made available to the States.

Mr. HOYER. So, in effect, it would undercut the final recipient?

Ms. ROSS. It would ultimately, yes, reduce the benefits going out to recipients.

Mr. HOYER. Thank you very much.

Thank you very much, Mr. Chairman.

SERVICE TO THE PUBLIC

Mr. NATCHER. Last year, Commissioner McSteen testified that one of her principal goals was to insure courteous service to the public.

Certainly, we agree with that goal. This is the people's money, and they have a right to be treated fairly. Occasionally, however, we hear reports that this goal may not be met.

What can you tell us about how you measure that agency's performance in this area?

Mr. SABATINI. We have several measures that we look at in terms of defining and measuring our level of service, but those measures concentrate, at this point, on things like processing time and accuracy.

We thought the GAO report was a good report, not only because it was a positive report and confirmed something that we all believed was taking place, but also because it indicated a methodology for measuring the idea of client satisfaction through surveys. In our response to the report, we indicated that we were working on, and we were going to strive to develop, an ongoing process that would allow us to continually monitor and collect the kind of data that is reflected in the GAO report.

And we are in the process of building that kind of mechanism right now.

Mr. NATCHER. Do you currently support any external evaluations, or consumer advisory panels to help you monitor service to the public?

Mr. SABATINI. No, not directly, but we work very, very closely through our Office of Governmental Affairs with constituency groups, and we have a very strong relationship and an ongoing dialogue with organizations that represent our customers. We listen to them, and get feedback from them, and react when we find problems.

Last year, we probably had contact, either personal or telephone contact, with approximately 40 million Americans. It would be foolish for me to sit here and say that the service we provide, and the courtesy for every one of them was perfect.

There are instances where we have problems. I can assure you that we do whatever we can to keep those problems from occurring, and when there is a problem, we move very quickly and make sure that the problem is taken care of.

Mr. NATCHER. The committee will now recess until 2:00, and now let's go off the record.

AFTERNOON SESSION

EMPLOYMENT REDUCTIONS

Mr. **CONTE** [presiding]. Before lunch, we were talking about the reduction of employment, and the original five-year plan did not originate in social security on the basis of any particular analysis. Didn't it originate in OMB?

Mr. **SABATINI**. The original idea of having a long-range target to start moving towards came out of OMB. The 17,000 FTE reduction number was one that came as a result of a lot of discussions and back-and-forth negotiations between the Department and OMB.

REVIEWS OF FIELD OFFICES

Mr. **CONTE**. How many offices did you close in fiscal year 1985?

Mr. **SABATINI**. We closed 9 field offices in fiscal year 1985.

Mr. **CONTE**. How many do you anticipate closing in 1986?

Mr. **SABATINI**. We think that there might be five offices that would make sense to either close or consolidate in 1986. We have nothing specific in the budget for office closings in 1987.

Mr. **CONTE**. Likewise, 1988 and 1989?

Mr. **SABATINI**. Yes, sir.

Mr. **CONTE**. What criteria do you use to decide what offices to close?

Mr. **SABATINI**. The criteria is for the most part local knowledge and localized criteria designed to meet the specific needs of a local population, based on the demographic characteristics and the geographic characteristics in the area.

We try to be careful in looking at our offices, and service areas, so that our institutions are designed to meet the specific needs of the populations we serve. We are not a McDonald's, where you go in and have a standardized product with a standardized delivery that you take or leave.

We have a standard product but the delivery of our product has to be tailored to meet the individual needs of the clientele that we are serving. We try to accommodate to that when we look at our local needs.

Mr. **CONTE**. How many offices a year are you reviewing with respect to determining whether they meet these criteria, and how does that compare with the past?

Mr. **SABATINI**. We started last year an ongoing review cycle, to look at each office once every three to five years. We want to look at all of our installations.

There was a lot of controversy about this last year at the appropriations hearings. Since then we have looked at about 250 offices under this process. As a result of looking at those 250 offices, we have decided that none of them need to be closed.

We found some very good things. We looked at all of our offices in South Dakota, and what we found we needed to do there to provide service because of the widespread geographic area, was to provide toll-free telephone service. We have instituted that.

Also, in some cases we have rearranged ZIP Codes among service areas so that people can get better service by our better balancing our workloads.

Mr. **Conte**. For the record, why don't you give us an extensive breakdown of how many offices you have reviewed with regard to closing criteria for the past 10 years, and how many you have closed over that period, up to and including fiscal year 1987.

Mr. **Sabatini**. Yes.

[The information follows:]

SOCIAL SECURITY FIELD OFFICE FACILITY CHANGES

The requested information on SSA field office facility changes from FY 1978 through FY 1987 is shown in the table below. The office changes are listed by fiscal year based on the date the facility change was implemented rather than the date the proposed change was approved.

IMPLEMENTATION OF FIELD OFFICE CHANGES BY FISCAL YEAR

Fiscal year	Openings	Closings	Downsizings	Upgrades
1978	7	0	0	0
1979	8	2	1	0
1980	6	1	0	0
1981	4	3	4	2
1982	8	3	8	1
1983	1	2	8	7
1984	0	4	13	1
1985	1	9	11	5
1986 (to date)	0	0	0	1
1987 No actions planned.				

Five offices are scheduled for closing later this year, based on prior decisions. Three of these offices will be consolidated into a single district office.

Upgrades and downsizings refer to changes in the type and size of SSA offices providing direct service to the public.

SSA does not have specific criteria for closing offices, but there is an ongoing review process which applies to all field offices. The objective of this review process is not to close offices, but to ensure that the service needs of the public are being met in the most efficient and effective way possible.

We cannot provide statistics regarding the number of offices that have been reviewed under this process for the last 10 years. However, each office is reviewed periodically at the local and/or regional level, based on the following factors in the service area:

Workload (walk-in and telephone traffic).
Population (total as well as number receiving benefits).
Demographics (minority populations, eduction level, income level).
Geographics (rural, urban, suburban).
Public access to the office.
Public information and public service needs.

MODERNIZATION OF FIELD OFFICES

Mr. **Conte**. One of the reasons given for these reductions is the investment in automation we have been making. I recently received a notice from you saying that you are initiating this month Claims Modernization Process pilot offices, and that one of the 18 pilot offices will be in Springfield, Massachusetts.

Walk me through this, Mr. Sabatini. What is a Pilot Office going to look like, and how many employees are there going to be compared to the prior method of operation?

Mr. **Sabatini**. Basically, what is going to be happening in those offices is that the system that we will be dealing with will be an interactive system. The interviewers who are accepting applications will be utilizing data processing terminals. They will be able to take the application information, enter it through the terminals on an online system, and be able to gather the necessary information to make decisions as to eligibility.

And many of the very difficult and complicated computations that are involved will be handled in an automated mode; and we will be able to process claims in a much faster way, with improved accuracy and integrity.

Within the modernized offices, there are going to be certain positions that we are no longer going to need. Under the current system, which is a manual system that involves taking applications with paper and pencil, we need people that can do the transcription of that information onto a data input form, and translate that through our telecommunications network.

That will be done automatically in the modernized system; and as we start eliminating the need for the transcribers, we are going to redeploy and retrain these people so that we have additional support in interviewing and in other areas.

Overall, the system should have some remarkable results, improving accuracy and service.

Mr. CONTE. I am going to yield to my Chairman. But before I do, I would like to ask this question, because it pertains to my District. I will do this for the record, too. What would a project like this mean for offices in the surrounding area?

And for the record, why don't you list all the offices in the First Congressional District, and tell me what your plans are with regard to reviewing each of them, and whether you have any plans to close any of them.

Mr. SABATINI. We have no plans to close any offices in your District.

[The information follows:]

CLAIMS MODERNIZATION PROJECT PILOT OFFICES

During FY 1985 two pilot offices began taking claims under the modernized claims process which includes direct input of data into desktop terminals during the claims taking process. During FY 1986 an additional 18 field offices (for a total of 2 per region) and pilot modules in the six program service centers began testing software with national implementation beginning later this year.

The Springfield, Massachusetts office is one of the 18 additional pilot offices, and it has been outfitted with a limited number of terminals in order to gain experience necessary for national implementation. The pilot activity has required additional training in the Springfield office because using the new equipment is different from regular claims processing methods. However, this pilot activity has no other effects on other offices in the district.

As we move to national implementation, a larger number of terminals will be installed in each office, which will have additional effects on those offices. Preparation of each site to receive the terminals will be temporarily disruptive to that office. Also, personnel in each office will require substantial training, which we now project will need to be accomplished in a 6 to 8 week period after the terminals are installed to insure that the SSA employees are properly equipped to process claims using the new procedures and equipment. Our budget estimates for FY 1986 and FY 1987 include additional workyears required for training and due to expected office disruption at the time of site preparation.

During the period of transition to the new system we will do everything we can to insure that this activity does not adversely affect our service to the public. Offices will be asked to demonstrate that workloads are in good shape prior to terminal installation. We are considering other approaches as well. Since all offices in a geographical area will not receive new terminals at the same time, we may adopt an area-wide approach to handling the workload to lessen the impact on a particular office.

For your information, the tentative dates for installation of terminals in the first Congressional district of Massachusetts (other than Springfield which is now a pilot office) are as follows:

Holyoke	2/87
North Adams	9/88
Greenfield	2/87
Pittsfield	9/88

SERVICE DELIVERY REVIEWS IN THE FIRST CONGRESSIONAL DISTRICT OF MASSACHUSETTS

The Massachusetts first Congressional district includes the following Social Security field offices: Springfield, Holyoke, North Adams, Greenfield, and Pittsfield.

None of these offices has been reviewed yet under the service delivery review project and none are currently scheduled this year. We expect that the offices in the first congressional district will be reviewed during FY 1987. Our goal is to complete the first round of reviews of all SSA field offices by December 31, 1987.

REAUTHORIZATION LEGISLATION FOR REFUGEE PROGRAM

Mr. NATCHER [presiding]. Mr. Hawkes, the Refugee Act expired in fiscal year 1983, as you know. What is the current status of efforts to renew the authorization of the refugee programs? Where are we at this time?

Mr. HAWKES. Mr. Chairman, the House reported out a bill in June of last year. The Senate Committee on the Judiciary reported out a bill at the same time, but it was not acted on further by the full Senate.

We have a legislative package currently in preparation which we would expect to get up to the Hill within a few weeks.

Mr. NATCHER. Your 1987 budget proposes numerous changes in the program. These include elimination of several activities and a reduction in the period of eligibility to 18 months.

Are any of these changes provided for either in the House or the Senate versions of the refugee bill?

Mr. HAWKES. No, sir, not exactly. Legislation would be necessary for the major changes that are contained in our budget request.

PROPOSED FY 1986 RECISIONS FOR REFUGEE PROGRAM

Mr. NATCHER. The President's budget includes recisions in the refugee program totaling $87.515 million. Tell us, if you will please, which activities will be affected, and why in each case a recision is being proposed.

Mr. HAWKES. The major recision in our package is a recision of $48 million in targeted assistance. The targeted assistance program was originated in 1982, as a temporary program to deal with the large numbers of refugees and entrants that came into the country in 1980, 1981 and 1982.

Since that time, $243 million have been expended. Funds have been mainly directed at employment services for refugees and entrants. Over that period of time, we have very little evidence that we have effectively dealt with that large body of unemployed refugees.

We have done case-by-case surveys of targeted assistance programs in areas of the country, and found that the average client is in fact not a welfare recipient, but an individual with considerable education and work experience in the United States and who was no more employable the day he graduated from a particular training program than the day that he went into it.

So while perhaps hundreds of people were placed on jobs as a result of targeted assistance monies, most of them were already employable. The reason for initiating the targeted assistance program in the first place, to aid the number of refugees on public assistance, has not been addressed by and large by the program.

In some particular locations, 95 percent of the participants in the program were not welfare recipients. Even where people were placed in jobs, job retention has not been good, sometimes a less than 30 percent retention rate 30 days after training.

We believe many refugees are capable of taking jobs and would take jobs, but as long as service alternatives are offered, then refugees tend to take advantage of that training as much as it is available. Particularly, I would like to cite last fiscal year, in which we put $150 million of social services and targeted assistance money out through the States. This was a record, with more money, and more slots than we have ever had before in this program, in spite of the fact that our three-year eligible population is half of what it was five years ago.

And during that time, the welfare rate for refugees actually went up 4 points nationally. I don't believe that these programs are having the effect intended, and I don't believe further expenditure of the funds is useful. I have earlier explained the proposed recisions for social services and children education assistance.

CHILD SUPPORT ENFORCEMENT PROGRAM

Mr. NATCHER. Thank you.

Now, Mr. Ritchie, your statement indicates that the fiscal year 1987 request for child support is $729 million, and the President's budget and justification that we have indicated $770 million. Which is the correct figure?

Mr. RITCHIE. The figure we have, sir, is $729 million.

Mr. NATCHER. Yes, I believe you will find now, if you will check, $770 million.

Mr. RITCHIE. The $729 million is with the FY 1987 proposed amendments, Mr. Natcher.

Mr. NATCHER. With the amendments?

Mr. RITCHIE. Yes, sir.

Mr. NATCHER. Mr. Sabatini, we want to thank you and your associates for appearing before our committee at this time in behalf of your budget request for the fiscal year 1987. I and other members have a number of questions for the record.

Mr. SABATINI. Thank you very much, Mr. Chairman.

Mr. NATCHER. The committee will now adjourn until 10:00 in the morning.

[The following questions were submitted to be answered for the record:]

EMPLOYMENT RESOURCES

Mr. Natcher: Tell us how many FTE's were requested by SSA in its original budget proposal to the Department for 1987 and how this compares to the President's 1987 budget?

Mr. Sabatini: SSA's original FY 1987 budget request for the Limitation on Administrative Expenses (LAE) account was for 73,530 FTE's. This is 260 FTE's more than the number in the FY 1987 President's budget for LAE. The 260 FTE's had been requested for the Office of the General Counsel (OGC), and we were able to absorb this increase for OGC within the SSA total. SSA submitted an amended budget to HHS which requested 500 additional FTE's for implementation of the Secretary's policy of acquiescence in certain disability court decisions. This estimate was developed before SSA had any experience with the new policy, and subsequent developments have shown that workloads from acquiescene have not materialized as expected in our preliminary estimate.

Mr. Natcher: The table on page 193 of the justifications shows that you are making a number of shifts in your employment pattern from full-time employees to overtime and nonceiling resources. What is the reason for this change?

Mr. Sabatini: As a result of the Gramm-Rudman sequestration in 1986, SSA reduced nonceiling employment by 724 workyears and overtime by 1,338 workyears, effectively cutting workyears for these areas of our employment budget by almost one-half. In 1987 we have gone back to our pre-Gramm-Rudman mix of FTE's, nonceiling employment and overtime.

Mr. Natcher: What is the additional cost to the trust funds in FY 1987 from using 1,749 additional workyears of overtime rather than hiring 1,749 additional full-time staff?

Mr. Sabatini: The bulk of SSA's FY 1987 overtime will be used in operations at an estimated cost of about $26,400 per workyear, which includes overtime premium pay.

There would be a certain amount of unproductive time associated with the hiring and training of full-time employees. In addition, employees on regular time accrue leave while employees on overtime do not. This means that it takes more than 1,749 full-time employees to substitute for 1,749 workyears of overtime. Therefore, comparing the cost of 1,749 workyears of overtime with the cost of 1,749 full-time employees is not a valid comparison.

Mr. Natcher: Insert in the record at this point a 10 year history table on staffing levels at SSA expressed both in manyears and full-time equivalents for the "limitation" account only. Also include data on the amount of overtime each year.

Mr. Sabatini: The information follows.

Limitation on Administrative Expenses
Full-Time Equivalents (FTE's) and Workyears

Fiscal Year	FTE's	Workyears
1978	---	86,597
1979	---	86,126
1980	---	85,067
1981	---	84,392
1982	82,000	86,640
1983	82,483	88,215
1984	79,951	86,189
1985	77,741	82,131
1986 Estimate*	76,169	79,013
1987 Estimate	73,270	78,580

NOTE: FTE data are not available prior to FY 1982.

Limitation on Administrative Expenses - Overtime

Fiscal Year	Overtime Workyears	% of Total Workyears
1978	2,484	2.9 %
1979	2,691	3.1 %
1980	2,464	2.9 %
1981	2,977	3.5 %
1982	2,800	3.2 %
1983	3,963	4.5 %
1984	3,990	4.6 %
1985	2,317	2.8 %
1986 Estimate*	1,775	2.3 %
1987 Estimate	3,524	4.5 %

* Reflects effect of Gramm-Rudman-Hollings Act sequestration of funds.

FIELD OFFICE REVIEWS AND CLOSINGS

Mr. Natcher: The FY 1986 budget debate also focused on the possibility that a significant number of Social Security offices might be closed. Both Secretary Bowen and Director Miller have assured us there are no plans to close large numbers of offices in 1987. Tell us how many offices have been closed over the last 3 years and how many you anticipate being closed in 1986 and 1987.

Mr. Sabatini: Based on prior decisions, we have closed 15 offices in the past 3 fiscal years and we plan to close an additional five offices later this year. Three of these offices will be consolidated into a single district office. At this time we have no plans to close any additional offices.

Mr. Natcher: Have you published final criteria for reviewing branch and district offices to determine whether changes are appropriate? Insert in the record at this point a short summary of the criteria which will be used to evaluate branch and district offices.

Mr. Sabatini: In May 1985 we published national factors that should be considered whenever any office is reviewed. The objective of this methodology is to ensure use of a systematic, comprehensive approach in the review of facility locations. Whenever a facility is being evaluated, the same factors are reviewed. The weight, or importance, of these factors will vary from place to place.

This is an ongoing review process which applies to all field offices. The objective of this review process is to ensure that the service needs of the public are being met in the most efficient and effective way possible. Each office is reviewed periodically at the local and/or regional level, based on the following factors as related to its service area:

--workload (walk-in and telephone traffic)
--population (total, number receiving benefits, and projected growth)
--demographics (minority populations, education level, income level)
--geographics (rural, urban, suburban)
--public access to the office
--public information and public service needs.

CONTINGENCY RESERVE

Mr. Natcher: The FY 1986 appropriation after Gramm-Rudman maintains a contingency reserve of $138,765,000. What are your current plans for use of the contingency reserve?

Mr. Sabatini: The contingency reserve is available to meet unanticipated costs related to workloads, automation projects and their impact on the work force, and Disability State Agencies. We have requested use of the contingency reserve for Disability State Agency costs, and it is now under consideration.

Mr. Natcher: Our records indicate that Social Security has routinely lapsed large amounts of its administrative funds. Tell us first how much money was lapsed in FY 1983, 1984 and 1985. Also tell us why you have lapsed these funds. Finally, tell us how much money was included in the contingency reserve each year and how much of this was used.

Mr. Sabatini: Lapsed administrative funds for the 3 years you mentioned have ranged from 2.9 to 3.3 percent of the funds apportioned. The table below compares the amounts apportioned, the amounts lapsed and the contingency reserves for the limitation account for the past 3 years. The table excludes no-year money, approved by the Congress to facilitate the SSA systems modernization effort and funding of construction activities, because these funds do not lapse:

	Dollars in Millions			
	Amount Apportioned	Amount Lapsed	Contingency Reserve Appropriated	Contingency Reserve Apportioned
FY 1985...	$3,527.0	$116.9	$50	-0-
FY 1984...	3,423.9	97.6	50	-0-
FY 1983...	3,301.1	94.2	50	$37

For the last several years our continuing disability review (CDR) workloads have come in below budget as a result of, among other things, the CDR moratorium and our efforts to get regulations implementing the 1984 Disability Amendments in place before resuming CDR's. In addition, the 1985 lapse reflects lower inquiry workloads than anticipated from implementation of taxation of Social Security benefits. We think that the lapse for these 3 years has been abnormal and not predictive of future needs.

We do not consider the unapportioned contingency reserve as a true lapse. SSA does not enter a fiscal year with plans to spend the reserve. The reserve is a safety valve to insure that the public will be serviced adequately if workloads, State agency costs or automation requirements come in over budget. In the past 3 years we have not needed to open the safety valve.

LOW INCOME HOME ENERGY ASSISTANCE PROGRAM

Mr. Natcher: What is the current status of efforts to reauthorize the low income energy assistance program for 1987?

Ms. Ross: The Administration submitted legislation to the Congress on March 14, 1986. This legislation would reauthorize the Low Income Home Energy Assistance program for 3 years at the current level of $2.1 billion. The Human Resources Subcommittee of the Committee on Education and Labor has marked up a reauthorization bill (H.R. 4422). The House of Representatives Committee on Energy and Commerce is expected to mark up legislation in the near future, as is the Subcommittee on Children, Family, Drugs, and Alcoholism of the Senate Labor and Human Resources Committee. Senator Stafford has also introduced a bill (S. 2081) to reauthorize LIHEAP.

Mr. Natcher: Because of falling energy prices, the Congressional Budget Office has estimated that only $1,919 million will be needed to maintain current services in this program. Do you agree with this estimate?

Ms. Ross: The most recent estimates we have from the Department of Energy indicate a 2 to 9 percent reduction in the average price of heating fuels from this winter to next winter. The lower end of that estimate (a 9 percent reduction in prices) corresponds closely to the CBO's current services estimate. We expect to have updated forecasts from DOE in April.

Mr. Natcher: For the record, insert your current best estimate of how much it would cost in 1987 to maintain the current level of services in the energy assistance program and tell us how this figure was calculated?

Ms. Ross: As I indicated earlier, the Department of Energy currently estimates that the price of heating fuels will decrease by 2 to 9 percent from this winter to next winter. By applying a 9 percent reduction to the FY 1986 current services funding level of $2.01 billion, we would calculate a level of about $1.8 billion. By applying a 2 percent reduction to a current services level of $2.01 billion, we calculate about $1.97 billion.

Because of the nature of the LIHEAP allocation formula, an appropriation level that allowed nationally for the same level of services in FY 1987 as in FY 1986 would not guarantee that each State would be able to provide the same level of services.

Mr. Natcher: If Congress were to provide less than $2.1 billion in 1987 as a result of lower fuel costs, would the hold harmless provision of the State allocation formula need to be changed?

Ms. Ross: The hold harmless provision currently in the statute says that no State may receive less in FY 1986 "and beyond" than it would have in FY 1984 (i.e., under the allocation formula in effect prior to the passage of the Human Services Reauthorization Act of 1984) if the appropriation had been $1.975 billion. That hold harmless provision remains effective as long as the appropriation is above $1.975 billion. If the Congress were to appropriate less than this amount, we would ratably reduce each State's allotment from the amount it would have received in FY 1984 if the appropriation had been $1.975 billion. In effect, we would revert back to the allocation formula in effect prior to the passage of the Human Services Reauthorization Act of 1984. Whether the formula or the hold harmless provision should be changed is a matter that the Congress would have to decide.

Mr. Natcher: In addition to the change in energy prices, funding needs for this program are affected by the potential of huge payments to States from oil overcharge recoveries. We have heard estimates that the payments may exceed $8 billion. What is the current status of the oil overcharge settlements? Also tell us how and when these funds will be distributed?

Ms. Ross: A large amount of oil overcharge funds has already been distributed. The two distributions with the most impact on the Low Income Home Energy Assistance program were made under the "Warner Amendment" and the Exxon settlement. In FY 1983, Congress directed the Department of Energy (DOE) to distribute $200 million to States to be used, at the governors' discretion, for LIHEAP or any of four energy conservation programs administered by DOE. On March 6, 1986, the Department of Energy distributed to States almost $2.1 billion in Exxon funds at the direction of the Federal District Court. These funds are to be used in the same manner as the "Warner Amendment" funds.

We understand from the Department of Energy that it anticipates collecting approximately $4 billion in additional oil overcharge funds. (A little over $1 billion of that amount is currently being held in escrow.) The disposition of these funds has not been determined at this time.

SYSTEMS MODERNIZATION PLAN

Mr. Natcher: Four years ago Commissioner Svahn announced a multiyear program to upgrade automatic data processing systems at Social Security. What is the current status of the Systems Modernization Project?

Mr. Sabatini: The System Modernization Plan (SMP) is now entering its state-of-the-art phase after successfully completing the initial survival phase and laying the groundwork for future modernization in the transition phase. The plan's focus has shifted from solving immediate problems to one that stresses strategic planning. Although there have been revisions in some areas compared to the original 1982 plan, overall we have made significant progress towards a modern data processing and telecommunications system.

During the next few years SSA expects to realize savings from significant accomplishments in software modernization, including the nationwide implementation of the modernized claims systems. The new system will provide instant eligibility and entitlement determinations, enhanced automated computations and expanded automated control and audit functions. Modernization in this area will yield the greatest benefit to SSA in terms of operations and service to the public. Along with the modernized claims system, we will be implementing the nationwide Data Communications Utility network, acquiring a data base architecture and installing new hardware and software in the program service centers.

There has been some slippage in the scheduled implementation of the claims modernization process and SSA took this into account in developing the FY 1987 budget request. SSA will continue to make appropriate adjustments from year-to-year; however, SSA is still convinced that the long-term estimates are in the ballpark. Experience in our York, Pennsylvania and Baltimore, Maryland pilot offices confirms this. Obviously a plan of this magnitude involves scheduling changes which affect the timing of obligations and anticipated savings.

The original SMP was designed to cover 5 years. However, each year was to be the first year of a new 5-year plan which would allow SSA to attain and retain state-of-the-art technology and systems capability. Since the original SMP, we have added two major new programs as part of our modernization effort. These new programs are: Systems Operation Management - to modernize our operations in the National Computer Center and the Program Service Centers; and Administrative/Management Information Engineering - to modernize our management information systems. Over the next 5 years, SSA will implement ~~major~~ new software systems, a new nationwide telecommunications network and a fourth generation data base technology.

GAO REPORT ON THE SYSTEMS MODERNIZATION PLAN

Mr. Natcher: Last fall, GAO issued two reports which raised serious questions about the systems modernization program. One of these is entitled "SSA's computer system modernization effort may not achieve planned objectives." Let me read from these reports:

(a) "SSA's automated system remains vulnerable to fraud....
(b) SSA has made insufficient progress in improving its software.
(c) The goals of modernizing data communications and data base management have been delayed."

What is your response to these criticisms?

Mr. Sabatini: Let me respond to each of these concerns.

(a) Over the past few years SSA has implemented several measures to improve the security of its current operating system. It is well recognized that these steps are only interim measures. SSA's objective is to proceed under the SMP, with all available resources, to implement a new system containing modern, built-in features that will ensure the safety and security of its operational processes.

To accomplish this objective SMP design groups have been developing and implementing functional requirements specifications for appropriate internal controls, audit trails, auditability, security and privacy. SSA is now in the first phase of installing its modernized claims system, the design of which includes a new security environment. This system's major security features are:

--automated security audit trails;

--personal identification numbers identifying each individual entering or authorizing transaction data; and

--restricted access to computer and telecommunications resources through use of a commercial software package.

Although a personal identification number procedure is now in use in the current system, SSA has not modified its program software and procedures to require it for all transactions for two reasons. First, to do so would divert a significant amount of resources from SSA's major systems objective--the modernization of outdated computer systems and operational processes under the SMP. Second, the introduction of a personal identification number requirement for all transactions would necessitate changes in operating procedures in SSA field offices at about the same time that the offices will be undergoing conversion and staff training for the new, secure system. Although it is not quantifiable, we believe that this predictable disruption, added to the costs in time and resources, far outweighs the practical advantages that would be gained by the modification.

We believe that by continuing with its SMP automation plans SSA is pursuing the most effective course of action for improving the security and auditability of its systems.

(b) The Social Security Administration's (SSA) 1982 Systems Modernization Plan (SMP) outlined an incremental approach to a new system. The approach included documentation of current systems, the establishment of standard procedures, improvements to and use of existing software wherever possible, and the development of new software. SSA continues to follow this strategic approach, and has made only minor adjustments to it since its inception.

In the area of software development, SSA has begun to produce some new systems before completing all planned standards and software improvements. However, this activity is in keeping with the original SMP. SSA has established the necessary standards for the development of these new systems. In addition, the new software is being developed in areas where current software does not exist, such as the claims-taking portion of the Claims Modernization Project and the National Debt Management System. SSA will not proceed to develop new software for systems in which software does exist until new functional requirements are completed and the current functions of existing software are documented for use in drawing up such requirements.

The original SMP called for a major retrospective documentation effort. The scope of the effort was not specifically defined, but was generally understood to include all categories of documentation for all programmatic systems. As the effort got underway the documentation process was closely evaluated in relationship to SSA's needs and the software found to be salvageable. SMP managers concluded that a full documentation effort could not be completed in the tight timeframe originally planned. Moreover, it was determined that, since much of the software proved to be not salvageable, there was no need to fully document all exiting systems in order to support the development of replacement systems. A decision was made to divide the project into several initiatives. The result was that some of the documentation would be completed in the earlier stages of the SMP, and the remainder scheduled later. This modification in the approach ensures that the retrospective documentation envisioned in the original SMP will be completed, not as a single unit as originally planned, but in individually scheduled segments.

Under its adjusted approach SSA has completed the detailed description of all existing systems, including their characteristics and functions, and system design specifications and general level programming specifications for all systems have been developed. Data specifications for SSA's major master files have been completed and a user manual of procedures for all systems is being maintained.

Work on functional requirements is well underway. Since the basic SSA business processes in the new system will not be significantly different than in the present one, the functional requirements are being developed from the standpoint of the new system. However, the functional requirements will be used in both the maintenance of the present system as well as in the design of the new system.

In the area of software improvement, SSA experienced some delays and difficulties early in the SMP. But initial problems have been overcome and work is underway to restructure existing program software to make it less costly to maintain and more salvageable for use in the new system. In cooperation with the General Services Administration (GSA), SSA is managing this effort through a Software Improvement Project. This project, a major initiative of the SMP, is using GSA's "Guidelines for Establishing a Software Improvement Program."

One major task of the Software Improvement Project is the documentation of the detailed logic for programmatic systems. (This is another of the documentation efforts mentioned above that is being performed as a separate initiative.) Also, the project is testing commercially offered automated tools for use in documenting and improving existing software.

SSA is committed to documenting and improving as much of its existing systems as possible, and to developing reliable, efficient and maintainable new software. To that end, one of the SMP's aims is to modernize the systems development and maintenance process by establishing a systems engineering environment. A comprehensive program under the SMP is being implemented to institutionalize the environment. The program coordinates the following eight SMP initiatives:

--to upgrade and enforce the Software Engineering Technology;

--to implement high level systems integration;

--to implement rigorous software development standards;

--to enforce the use of modern software tools;

--to develop quality assurance/quality control mechanisms;

--to institutionalize configuration management;

--to emphasize data administration and data base administration; and

--to expand project management.

(c) The Data Communications Utility (DCU) program of the SMP was delayed approximately 6 months because of procurement protests. All protests have been resolved and procurement actions are proceeding according to revised schedules. The Data Base Integration (DBI) program of the SMP is substantially on schedule. We have completed the Survival and Transition phases of the DBI program and have achieved the objectives defined for those phases. SSA's major files (over one billion records) are now online and support approximately one-half million field inquiries each day.

We are now in the state-of-the-art phase and are making excellent progress toward the goal of developing the "...modern integrated data base system capable of growing with the needs of SSA" called for in the original SMP.

Although the SMP initially called for the completion of this effort in 5 years, the magnitude of the job dictated a revised schedule. Several years ago, we acknowledged that fact and have been working with the current schedule since that time.

FUNDING FOR THE SYSTEMS MODERNIZATION PLAN

Mr. Natcher: I believe the original cost estimate for the systems modernization project was approximately $500 million. How much money has been spent so far on the project and what is your current estimate of the total cost of the project to completion?

Mr. Sabatini: The original SMP 5-year projected cost was $470 million (through March 1987), while the current estimate of cost for the same period is $493 million. But, as the original plan indicated, "this is a dynamic plan which covers a 5-year period. It will be updated annually."

The actual cost of the program for the initial 3 1/2 years (March 1982 through September 1985) was $179 million while the projected cost of the program for the next 5 fiscal years will be $811 million. Included in this new total cost of $990 million are additional costs of $28 million for the Systems Operation Management Program and $197 million for the Administrative Management Information Engineering Program. Both of these programs were added to SSA's modernization program since its inception in March 1982.

Mr. Natcher: How much of the funds previously appropriated for the systems project is currently unobligated as of today?

Mr. Sabatini: For the automated data processing and telecommunications earmark in our appropriations, at the beginning of fiscal year 1986, we had $217.1 million of funds previously appropriated which were unobligated.

OFFICE AUTOMATION

Mr. Natcher: Does the systems project include a review of office automation within SSA's headquarters office and if so what are the results of this review?

Mr. Sabatini: Yes, the SMP includes a review of office automation (OA) within the SSA headquarters, which we are now undertaking. The Administrative/Management Information Engineering (AMIE) program of the SMP was created in part as a result of earlier reviews which identified the need for more coordinated planning in OA areas. The End-User Computing subprogram of the AMIE program addresses the OA needs of all SSA components, including those located at SSA headquarters. Projects within this subprogram provide for expanded, integrated OA planning and procurements on a consolidated basis for each of SSA's four major components (Programs and Policy, Operations, Management and Assessment, and Systems).

Mr. Natcher: How much money is expected to be spent on personal computers in FY 1985, 1986 and 1987 and how are these expenditures controlled?

Mr. Sabatini: Following are the dollar amounts which have been spent or are budgeted for personal computers within the Social Security Administration in fiscal years 1985, 1986 and 1987:

FY 1985	-	$ 9,151,767
FY 1986	-	$27,500,000 estimated
FY 1987	-	$7,000,000 estimated

These expenditures are controlled through multiple reviews, both within and outside of SSA. All procurements receive a thorough technical review at several levels within SSA. In addition, large dollar value procurements are sent to the Department of Health and Human Services and to the General Services Administration for review and issuance of a Delegation of Procurement Authority.

PROCUREMENT PRACTICES

Mr. Natcher: Last December, one of your major contractors was barred from doing further business with the Federal Government as a result of fraudulent presentations to SSA. Has this problem resulted in either financial or programmatic damage to SSA?

Mr. Sabatini: No, it has not created financial or programmatic damage to the Agency. We have an existing contract in place and it is being closely monitored to insure compliance.

Mr. Natcher: Were any Social Security employees fired, downgraded or otherwise disciplined as a result of the Paradyne situation?

Mr. Sabatini: No. After numerous investigations, both internal and external, no existing SSA employees have been implicated in any wrongdoings. A former SSA employee has been implicated, but he left our employment before any action could be taken.

Mr. Natcher: Have there been any changes in SSA's procurement policies as a result of the Paradyne situation?

Mr. Sabatini: Yes, today SSA only buys equipment which has been successfully installed and is operating elsewhere in the marketplace. This "Field Proven" approach ensures that SSA will not repeat the situation where we are the first customers for an unproven piece of equipment.

To strengthen our management controls, we have separated procurement review from the originating components.

Mr. Natcher: There have been other accusations of conflicts of interest within Social Security regarding procurements related to the systems project. Are any of these valid and if so what steps have been taken to ensure the integrity of SSA's procurement system?

Mr. Sabatini: I am not aware of any actual conflicts of interest related to SSA acquisitions. We have in place an aggressive program to eliminate conflicts of interest. All individuals involved in major SSA acquisitions have been informed of the rules governing conflicts of interest and are requested to sign conflict of interest statements prior to their participation in SSA procurements.

INDEFINITE APPROPRIATION AUTHORITY

Mr. Natcher: As you know, the bill language for the public assistance account includes indefinite appropriations to cover any emergency shortfalls which may occur at the end of the fiscal year. This language was not intended to cover a shortfall which is known at the time the President's budget was transmitted on February 5. Why have you chosen not to submit a supplemental to cover this $950 million shortfall?

Mr. Sabatini: Although we know we are going to have a shortfall, we won't have a good fix on its size until the summer. The $950 million was our best estimate in December, when the President's budget estimates were being developed. Experience has shown that many of the activities funded by the public assistance accounts are volatile and difficult to project because they are sensitive to the performance of the economy and subject to budget decisions of individual States. HHS intends to write to the Committees later in the year, before we actually use the authority, providing our best estimates of amounts which may be required and made available under the indefinite appropriation authority. This letter will be in keeping with the requirements of the Conference report on the FY 1986 appropriation bill, which asks that the Secretary submit such a report by July 1. We also intend to submit a second report, as soon as possible after the close of the fiscal year, containing final accounting of the new budget authority actually made available through the indefinite appropriation authority during the fiscal year.

ADVANCE APPROPRIATIONS

Mr. Natcher: In addition to the indefinite appropriation, the public assistance accounts also include advance appropriations. Are these necessary? What damage would be caused if these were eliminated?

Mr. Sabatini: We think the advance appropriation is necessary. We view the advance appropriation as a vital element of a process that insures that needy public assistance recipients receive timely benefit payments at the beginning of the fiscal year.

The assistance payment account funds regular monthly benefit payments to needy mothers and children who depend upon the monthly AFDC benefit to meet their most basic needs. Several States have constitutional provisions which prohibit payment of State funds until Federal matching funds are in hand. Any delay in granting Federal matching funds to these States would adversely affect beneficiaries. The advance appropriation enables SSA to obtain OMB apportionment of funds and actually grant the matching funds to States before the new fiscal year begins.

Without the advance appropriation, this process of apportioning funds and granting them to States would not be triggered until the new appropriation or continuing resolution was enacted. AFDC beneficiaries might experience delays in receipt of benefits.

SSA has two other accounts which include a first quarter advance appropriation. These are the Supplemental Security Income (SSI) and Special Benefits for Disabled Coal Miners or Black Lung (BL) accounts. These accounts also fund regular monthly benefit payments to individuals who, for the most part, depend upon them to meet their basic needs.

These two program are not State-administered. However, assurance of fund availability before the first day of the fiscal year is vital to the administration of these programs in the beginning of the fiscal year. Benefit checks for these programs are printed by the Treasury Department and disbursed through the postal system, or through the Federal Reserve system in the case of direct deposit benefits. SSA must certify the first check of the new fiscal year about one week before the year begins. Appropriations and continuing resolutions are usually not enacted until closer to the end of the year or right at the beginning of the new year. Without the advance appropriation SSA would be certifying checks to Treasury with no real assurance that appropriated funds would be available on the day that checks are received.

HISTORICAL TABLES

Mr. Natcher: Insert in the record at this point historical tables on Social Security programs which you have prepared for the Committee for the last several years.

Mr. Sabatini: The information follows.

SOCIAL SECURITY ADMINISTRATION

NUMBER OF BENEFICIARIES, AVERAGE FOR FISCAL YEAR
(in millions)

Program	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985
Old-age and survivors insurance	31.2	31.8	31.9	32.3	32.7
Disability insurance	4.7	4.4	3.9	3.8	3.8
Supplemental security income*	4.1	4.0	3.9	3.9	4.1
Aid to families with dependent children	11.1	10.4	10.6	10.8	10.8
Disabled coal miners	0.4	0.4	0.4	0.3	0.3

* Including State supplementation only.

EXPENDITURES BY PROGRAM
(dollars in thousands)

Program	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985
Trust funds:					
OASI	$122,304,248	$137,928,747	$153,988,737	$162,406,492	$171,613,552
DI	17,280,271	18,035,351	18,291,361	18,459,324	19,372,263
Total	$139,584,519	$155,964,098	$172,280,098	$180,865,816	$190,985,815
Federal funds:					
SSI	7,191,506	$7,676,650	$8,723,567	$8,497,629	$9,606,378
BL	1,090,493	1,091,774	1,078,759	1,056,697	1,039,607
AP	8,503,122	7,989,656	7,874,930	8,345,814	8,624,871
LIHEAP	1,734,353	1,687,147	1,993,408	2,025,707	2,141,254

AVERAGE LEVEL OF PAYMENT, END OF CALENDAR YEAR

Program	1981	1982	1983	1984	1985
OASI (all retired workers)..........	$385.97	$419.25	$440.77	$460.57	$478.62
DI (all disabled workers..........	413.15	440.60	456.20	470.67	483.86
SSI.................	160.29	174.72	189.40	219.00	226.06
BL (includes benefits for wives and/or children).........	425.10	441.90	441.40	458.00	474.30
AFDC (per individual)......	103.15	106.33	109.93	114.56	118.74

PROCESSING TIMES

			Quarter Ending		
Mean time in days	12/81	12/82	12/83	12/84	12/85
Claims					
--OASI...........	31.1	27.1	23.8	22.9	20.7
--DI.............	67.1	69.1	68.6	71.3	71.2
--SSI Aged.......	21.0	25.1	17.6	14.5	10.9
--SSI Blind and Disabled......	58.4	69.4	71.8	70.7	64.7
Hearings...........	168.0	182.0	184.0	168.0	154.0

HEARINGS WORKLOADS

	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985
Processed..........	260,748	294,286	342,998	335,251	244,311
Closing pending....	128,787	151,269	173,431	108,467	107,575

FEDERAL AND STATE ADMINISTRATIVE COSTS

(Obligations in millions of dollars)

Program	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985
Old-age and survivors insurance:					
Federal administrative expenses.............	$1,343.7	$1,494.0	$1,582.4	$1,650.6	$1,690.2
Percent of benefits....	1.1	1.1	1.1	1.1	1.0
Disability insurance:					
Federal administrative expenses.............	$422.5	$573.3	$658.9	$585.1	$603.1
Percent of benefits....	2.5	3.3	3.7	3.3	3.2
Supplemental security income:					
Federal adminsitrative expenses.............	$719.8	$780.3	$846.0	$904.6	$960.6
Percent of benefits [1]	8.7	9.1	9.4	9.3	9.2
Assistance Payments:					
Administration [2]......	$859.0	$885.5	$963.7	$889.1	$956.0
Percent of benefits....	11.5	12.8	13.3	11.5	12.0
Disabled coal miners:					
Federal administrative expenses.............	$6.0	$7.2	$6.7	$6.5	$5.9
Percent of benefits....	0.5	0.7	0.6	0.6	0.6

[1] Includes federally-administered State supplemental benefits.

[2] Includes State and local administration and training and Federal administration.

PAYMENT ERROR RATES
(in percent)

	Aid to Families with Dependent Children
6-month period ending:	
September 1978	9.4
March 1979	10.4
September 1979	9.5
March 1980	8.3
September 1980	7.3
March 1981	8.3
September 1981	7.0
March 1982	7.3
September 1982	6.6
March 1983	6.2
September 1983	6.8
March 1984	6.2
September 1984	5.8

	Supplemental Security Income	Old-Age & Survivors Insurance	Disability Insurance
6-month period ending:			
September 1976	6.3	1/	1/
September 1977	5.2	1/	1/
March 1978	4.6	1/	1/
September 1978	4.6	1/	1/
March 1979	5.0	0.21	1/
September 1979	4.9	0.28	19.3 3/
March 1980	5.0	1/	1/
September 1980	4.9	1/	27.8
March 1981	5.3	0.66 2/	1/
September 1981	4.9	0.40	1/
March 1982	4.8	0.40	1/
September 1982	4.1	0.45	1/
March 1983	4.1	0.49	1/
September 1983	3.6	0.52	1/
September 1984 4/	3.3	0.50	1/
September 1985	3.3	0.48	1/

1/ Not available
2/ Includes 0.3 percent related to ongoing benefit payments; and, for the first time, includes the impact of the annual earnings test (0.3%).
3/ For April 1979--one month only.
4/ 12-month measuring period effective 1984.

SOCIAL SECURITY TAXES

Year	Tax Rate Employer/ Employee, Each--% [1]	Maximum Wages Taxable	Maximum Annual Tax Employer/ Employee Each [1]	Average Annual Tax Employer/ Employee, Each [2]
1937	1.0	$3,000.00	$30.00	9.00
1938	1.0	3,000.00	30.00	8.33
1939	1.0	3,000.00	30.00	8.81
1940	1.0	3,000.00	30.00	9.32
1941	1.0	3,000.00	30.00	10.21
1942	1.0	3,000.00	30.00	11.42
1943	1.0	3,000.00	30.00	13.10
1944	1.0	3,000.00	30.00	13.92
1945	1.0	3,000.00	30.00	13.57
1946	1.0	3,000.00	30.00	14.15
1947	1.0	3,000.00	30.00	16.02
1948	1.0	3,000.00	30.00	17.16
1949	1.0	3,000.00	30.00	17.48
1950	1.5	3,000.00	45.00	27.18
1951	1.5	3,600.00	54.00	30.54
1952	1.5	3,600.00	54.00	32.39
1953	1.5	3,600.00	54.00	33.50
1954	2.0	3,600.00	72.00	44.12
1955	2.0	4,200.00	84.00	47.62
1956	2.0	4,200.00	84.00	50.50
1957	2.25	4,200.00	94.50	56.99
1958	2.25	4,200.00	94.50	58.28
1959	2.5	4,800.00	120.00	69.55
1960	3.0	4,800.00	144.00	84.45
1961	3.0	4,800.00	144.00	86.37
1962	3.125	4,800.00	150.00	90.78
1963	3.625	4,800.00	174.00	106.65
1964	3.625	4,800.00	174.00	110.67
1965	3.625	,800.00	174.00	112.67
1966	4.2	6,600.00	277.20	152.17
1967	4.4	6,600.00	290.40	163.99
1968	4.4	7,800.00	343.20	181.54
1969	4.8	7,800.00	374.40	206.45
1970	4.8	7,800.00	374.40	211.58
1971	5.2	7,800.00	405.60	234.88
1972	5.2	9,000.00	468.00	257.71
1973	5.85	10,800.00	631.80	323.68
1974	5.85	13,200.00	772.20	361.47
1975	5.85	14,100.00	824.85	388.03
1976	5.85	15,300.00	895.05	419.56
1977	5.85	16,500.00	965.25	451.04
1978	6.05	17,700.00	1,070.85	499.31
1979	6.13	22,900.00	1,403.77	575.50
1980	6.13	25,900.00	1,587.67	631.30
1981	6.65	29,700.00	1,975.05	753.77
1982	6.7	32,400.00	2,170.80	810.17
1983	6.7	35,700.00	2,391.90	858.05
1984	7.0	37,800.00	2,532.60[3]	941.33 [3]
1985	7.05	39,600.00	2,791.80	986.76
1986	7.15	42,000.00	3,003.00	1,055.74
1987	7.15	43,500.00	3,110.25	1,122.70
1988	7.51	45,600.00	3,424.56	1,248.63
1989	7.51	48,600.00	3,649.86	1,321.14
1990	7.65	51,600.00	3,947.40	1,409.78
1991	7.65	51,600.00	3,947.40	1,461.81

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[1] Excludes self-employment

[2] For several reasons, employer and employees share are not exactly equal (e.g., treatment of withholding on tips since 1966). Numbers shown are for employees. Medicare tax (HI) paid by Federal employees beginning in 1983 is not included.

[3] P.L. 98-21 provides that for 1984 only an employee may receive a tax credit equal to 0.3 percent of his taxable covered wages.

Year	Average Monthly Retirement Benefits at End of Year 1/		Maximum Monthly Retirement Benefits at End of Year 1/ 2/	
	Worker Only	Couple	Worker Only 3/	Couple
1940.........	$22.10	$36.40	$41.20	$61.80
1941.........	22.20	36.30	41.60	62.40
1942.........	22.50	36.80	42.00	63.00
1943.........	22.90	37.50	42.40	63.60
1944.........	23.00	37.90	42.80	64.20
1945.........	23.50	38.50	43.20	64.80
1946.........	23.90	39.00	43.60	65.40
1947.........	24.20	39.60	44.00	66.00
1948.........	24.60	40.40	44.40	66.60
1949.........	25.30	41.40	44.80	67.20
1950.........	42.20	71.70	45.20	67.80
1951.........	40.30	70.20	68.50	102.70
1952.........	47.10	81.60	68.50	102.70
1953.........	48.80	85.00	85.00	127.50
1954.........	56.50	99.10	85.00	127.50
1955.........	59.10	103.50	98.50	147.70
1956.........	59.90	105.90	103.50	155.20
1957.........	60.90	108.40	108.50	162.70
1958.........	62.60	111.20	108.50	162.70
1959.........	68.70	121.60	116.00	174.00
1960.........	69.90	123.90	119.00	178.50
1961.........	71.90	126.60	120.00	180.00
1962.........	72.50	127.90	123.00	184.50
1963.........	73.20	129.40	125.00	187.50
1964.........	73.90	130.70	127.00	190.50
1965.........	80.10	141.50	135.90	203.80
1966.........	80.60	142.50	135.90	203.80
1967.........	81.70	144.20	140.00	210.00
1968.........	95.00	166.30	161.60	242.40
1969.........	96.60	168.90	167.30	250.90
1970.........	114.20	198.90	196.40	294.60
1971.........	127.40	222.30	220.40	330.60
1972.........	157.10	272.50	269.70	404.60
1973.........	161.60	276.70	276.40	414.60
1974.........	183.10	312.30	316.30	474.50
1975.........	201.60	343.90	360.40	540.60
1976.........	218.80	373.10	403.10	604.70
1977.........	236.80	404.40	447.40	671.10
1978.........	256.60	437.50	489.70	734.60
1979.........	287.00	488.60	553.30	830.00
1980.........	333.00	566.60	653.80	980.70
1981.........	376.70	643.00	752.90	1,129.40
1982.........	408.90	702.50	729.00 4/	1,093.00 4/
1983.........	429.70	742.90	734.00	1,101.00
1984.........	449.60	780.40	728.00	1,092.00
1985.........	467.00	814.20	739.00	1,108.00

1/ Prior to 1940 benefits were not paid monthly.

2/ Assume retirement (age 65) at beginning of year.

3/ For 1962-1977, maximum benefits for men and women were different; amount shown is the higher (women's).

4/ Beginning in 1982, maximum benefits are less than 1981 because of the impact of wage indexing and decoupling under the 1977 amendments.

INDIVIDUALS RECEIVING TITLE II BENEFITS
(Monthly Benefits in Current Pay, End of Calendar Year)

Year	Beneficiaries
1940	222,488
1941	433,722
1942	598,342
1943	747,816
1944	954,881
1945	1,288,107
1946	1,642,299
1947	1,978,245
1948	2,314,557
1949	2,742,808
1950	3,477,243
1951	4,378,985
1952	5,025,549
1953	5,981,420
1954	6,886,480
1955	7,960,616
1956	9,128,121
1957	11,128,897
1958	12,430,234
1959	13,703,918
1960	14,844,589
1961	16,494,762
1962	18,053,395
1963	19,035,489
1964	19,799,539
1965	20,866,767
1966	22,767,252
1967	23,704,987
1968	24,560,374
1969	25,314,062
1970	26,228,629
1971	27,291,508
1972	28,476,028
1973	29,868,775
1974	30,852,817
1975	32,084,511
1976	33,020,946
1977	34,077,142
1978	34,586,343
1979	35,124,495
1980	35,618,840
1981	36,006,371
1982	35,840,411
1983	36,084,823
1984	36,478,971
1985	37,058,353

GENERAL FUND TRANSFERS TO TRUST FUNDS

Mr. Natcher: Between FY 1983 and FY 1986 the general funds advanced more than $25 billion to the trust funds. Will any of this be repaid in the future?

Mr. Sabatini: The Social Security Amendments of 1983 provided for various lump-sum transfers to be made from the general funds to the trust funds. The lump-sum payments covered general fund liabilities for pre-1957 military service credits, post-1956 military service credits and unnegotiated OASDI checks. Of the three, only the lump-sum payment for pre-1957 military service credits represented a general fund advance. The post-1956 military service credits and credits for unnegotiated OASDI checks represented monies owed by the general fund to the trust fund. The pre-1957 military service credits did cover payment for future general fund liabilities. While this advance payment for expected future costs was not a loan subject to repayment, the Amendments did require that this lump-sum determination be revised every 5 years to make any adjustments necessary.

AFDC WORKFARE PROGRAM

Mr. Natcher: Your budget proposes on one hand to implement a new workfare program under AFDC and on the other to eliminate the WIN program. What is the difference between these programs?

Ms. Ross: There are several major differences between the two programs.

Perhaps the most important difference is that the new program will focus State efforts on achieving active participation in work activities. In the WIN program, too much emphasis has been placed on paper registration. Many individuals have been left on hold for extended periods of time, without being assigned to work activities and without receiving any services. Also, the WIN program focused its resources on those individuals with the strongest educational backgrounds and work histories and greatest employment potential. This practice has meant that WIN got credit for many job placements which would have occurred anyway and that those individuals who were most disadvantaged and who could have benefited most from program participation were not served. Under the proposal, States would have to expand participation levels and provide services to the more disadvantaged. This change will make the new program more effective.

A second major difference is funding. WIN is funded under a fixed appropriation with a 90 percent Federal match rate. The new program would have open-ended funding, with a 50/50 matching rate.

Another significant difference is that the new program would give welfare agencies responsibility for administering welfare/work activities, thus eliminating the problems and inefficiencies of WIN's dual agency administration. Furthermore, the new program would rely upon the Job Training Partnership Act (JTPA) system to provide the training services for AFDC recipients; use of the JTPA system will help prevent duplication of efforts and will focus such training activities within the structure Congress designed for that purpose.

Additional advantages of the new program include the extension of work requirements to additional categories of employable applicants and recipients, the strengthening of provisions to deny AFDC to those who voluntarily quit jobs, reliance on the labor market to determine who is employable, and the focusing of State efforts on those activities which have proven effective in reducing welfare dependency.

AFDC ERROR RATE DISALLOWANCES

Mr. Natcher: What is the total amount of savings assumed in the 1987 budget from error rate penalties? How realistic is it to assume that these savings will actually materialize?

Ms. hoss: The FY 1987 budget assumed collection of $777.2 million in disallowances for FY 1981 - FY 1985. We recognized that it would take an intensive schedule to process the disallowances; however, we were committed to that effort.

The "Consolidated Omnibus Budget Reconciliation Act", which was passed by Congress after submission of the President's budget, contains a provision which provides for a two-year moratorium on collection of AFDC disallowances while the Department and the National Academy of Sciences each conduct a study of the quality control system. If the legislation is signed by the President, we will not be able to collect any of the disallowances in FY 1987.

DEFINITION OF TELECOMMUNICATIONS EQUIPMENT

Mr. Natcher: On page 142 of the justifications you bring to the Committee's attention a change in the definition of "telecommunications equipment". Tell us why the funds for these additional activities require extended availability?

Mr. Sabatini: Under the present earmark definition for telecommunications equipment, no-year funds can be used to purchase telecommunications equipment but cannot be used for a lease or lease-purchase plan, even if such a plan is determined to be the most cost-beneficial. With the definitional change, SSA would be able to follow good business practice by budgeting in the same place (i.e., the no-year earmark) for a procurement action that could result in either a lease or a purchase, and would be able to take advantage of the possibility of multiyear leasing and maintenance plans, permitted by GAO's definition of the telephone industry as a utility.

SOCIAL SECURITY STAFF AND SERVICES

Mr. Roybal: How can you assure us that you will maintain adequate staffing levels as determined by the Congress for FY 1987 since you have failed to do so for FY 1985 and FY 1986 and still have the goal to reduce your staff by 21 percent by 1990?

Mr. Sabatini: We continue to believe that we can reduce SSA employment approximately 20 percent from the 1984 level by 1990. This is consistent with the President's overall goal of achieving a 20 percent increase in Federal employee productivity. For SSA, we will approach this one year at a time, and we will not reduce our staff at the expense of service to our beneficiaries or through reductions-in-force. Since 1983, we have reduced SSA employment by about 8 percent, while at the same time reducing our backlogs and processing times.

Mr. Roybal: The March 1986 GAO report, "Actions and Plans to Reduce Agency Staff," shows that staff cuts are hitting the local field offices just as hard as the other parts of the organization despite the shifting of increasing workloads to the field. If your staff reductions come by attrition and half of the attrition comes from the field offices, how can you assure us that there will be no net reduction in staff and services in the field?

Mr. Sabatini: When workloads are shifted to the local field offices, as will be the case with District Office Final Authorization, we also will shift employment allocations to cover such workloads. However, as automation and improved procedures are introduced there will be reductions in the size of the staff in our field offices. We believe we can achieve these reductions without a reduction in service to the public. This will be accomplished one year at a time through management, procedural and systems changes. We recognize that problems may occur in specific areas due to staffing imbalances. These are management problems relating to the distribution, not the size, of our workforce, which we are addressing.

Mr. Roybal: The same March 1986 GAO report shows that there was a net reduction of more than 2 percent in the number of interviewers in field offices in 1985. Aren't these exactly the types of positions which will be needed more under the new claims process? Since it takes up to 3 years to fully train someone to fill a claims representative position, what is being done to increase the corps of claims representatives?

Mr. Sabatini: The studies and reviews we have conducted in our field offices where the new claims process is already operating do not show the need for additional claims representatives. Implementation of the new claims process will mainly eliminate the labor-intensive processes in the field offices associated with the input of data to our system, but it will not require an increase in interview personnel. Information will be more readily available to our claims representatives and other public contact personnel, resulting in better service to the public. The number of interviewers needed in SSA's field offices will be determined by the estimated volume of workloads they are expected to receive and the amount of time it will take to process those workloads under the modernized claims system.

Mr. Roybal: GAO's January 1986 report on SSA's Quality of Service found that 78 percent of those questioned rated SSA's quality of service as good or very good. When I was in school a 78 percent rated a "C". Are you satisfied with a "C" average when that means that 2.25 million of the people who contacted SSA were dissatisfied with the service they received?

Mr. Sabatini: Overall, I would say that we are pleased with the results of the January 1986 GAO survey entitled "Quality of Services Generally Rated High by Clients Sampled." The survey revealed that the vast majority of the people we serve felt that the quality of the service we provided was good and that our employees were courteous. It is our view that a finding of 7 percent who described the service they received as "poor" to "very poor" in a small sample which included people who had been denied entitlement under one of the programs we administer is not cause for alarm. This is not to say, however, that we will be satisfied with the service we provide as long as there is some number of dissatisfied people with whom we have had contact. Our goal is and always has been to provide the best possible service to the public.

Mr. Roybal: Are you satisfied with survey results that showed that 50 percent of all people who telephoned SSA finally hung up before they were able to talk with anyone and that an estimated 10 million people could not get through in three tries?

Mr. Sabatini: The survey results were that about 47 percent of the people trying to reach us by telephone were able to get through on the first try, 28 percent on the second try, and that 25 percent of the callers had to call 3 or more times. We are not satisfied with that kind of call completion record if, in fact, it is truly representative of the quality of the telephone service we provide over an extended period of time. We should point out that the volume of calls we receive from the public has its peaks and valleys; for example, calls increase dramatically during the first week of the month when benefit checks are mailed out. It would not, of course, be efficient to have either the staff or the telephone line resources in place during an entire month just to meet the needs of that one week "peak" situation. Therefore, if, as I suspect, a significant percentage of survey respondents were basing their experience on "check week" calls, our record does not look quite as bad. Perhaps we need to look into ways of being more effective in our efforts to encourage the public to call during less busy periods.

SOFTWARE PROJECTS

Mr. Roybal: What is the status of the first four software projects relating to the systems modernization plan (SMP) that have been delivered to the SSA, i.e., (1) annual wage reporting (AWR), (2) national debt management system (NDMS), (3) program center control system (PCCS), and (4) the enumeration modernization program (EMP)?

Mr. Sabatini: The statuses are as follows:

1. The Annual Wage Reporting (AWR) redesign project was initiated in order to modernize the SSA's earnings process, to post earnings to individual records more efficiently. The project was to result in improved controls of the earnings process, online balancing and validation and improved Management Information (MI). A Request for Proposal (RFP) was released to industry. Measurable improvements in the current earnings process resulted in SSA's posting tax year 1984 earnings by November 15, 1985. Because of these and other improvements, together with an anticipated decrease in paper earnings statements in part due to new Internal Revenue Service regulations, SSA cancelled the RFP in order to reevaluate alternatives for future AWR processing.

2. The National Debt Management System (NDMS) redesign project was initiated in order to consolidate debt processing for all SSA programs, to improve control, monitoring and accounting for debts, to provide for consolidated billing and to improve MI. Functional requirements, defining what products and services are to be provided by the NDMS system have been completed. NDMS software is currently being developed, and prototype software has been installed for evaluation by the SSA user community. Initial implementation of the new NDMS production software is planned for August 1986, and this effort is currently on schedule.

3. The Processing Center Control System (PCCS) will result in the development of a consolidated case control system for SSA's processing centers to replace existing obsolete systems. Improvements in the control of workflow, paper and system products are expected to result from this effort. The PCCS functional requirements have been defined and the system design phase is nearing completion. This design effort is defining the technical specifications which will describe how the PCCS system will implement the new functional requirements.

   The PCCS design effort is progressing on schedule; however, initial implementation will be delayed approxiately 5 months due to delays in acquiring hardware needed to support the new PCCS software system. Based upon our most recent hardware acquisition projections, we will be able to begin phased installation of the PCCS software in September 1987.

4. The Enumeration Modernization Project (EMP) will result in faster issuance of Social Security numbers (SSN's), improved MI, online processing of SSN applications and automated control and

audit functions. Functional requirements have been completed and were recently approved by the SSA user community. System design analysis is underway, with inital software implementation scheduled for January 1987.

Mr. Roybal: Is it true that each of these contracted out software products required major reworking by SSA staff? Specifically, how much time has been spent by SSA staff "fixing-up" the EMP and the NDMS? Is it true that 98 percent of the items in the NDMS data base have to be altered and that SSA systems staff spent 15 workyears to fix the NDMS deliverable?

Mr. Sabatini: It is true that all of the functional requirements developed by private contractors have required some amount of additional work by SSA personnel in order to finalize the requirements and obtain formal acceptance by the SSA user community. We do not characterize this additional effort as "reworking" the contractors' deliverables. The need for additional SSA effort was expected and is considered a normal activity when utilizing private contractors to perform a portion of the system development life cycle.

The various functional requirements documents that have been developed by private contractors to date are all considered to be usable; recognizing that some degree of modification is natural as the products are reviewed and accepted by the various SSA components.

Each of the software products delivered by contractors required different expenditure of SSA effort. Specifically, regarding the two contracts you asked about:

- The contractor was not required to develop a data base of requirements for the National Debt Management System (NDMS); therefore, we are unable to address the allegation that 98 percent of the items in the NDMS data base required alteration. The contractor-developed NDMS FRD required additional work by SSA staff in order to expand the detail of the requirements prior to implementation. Since a tool was later adopted by SSA for requirements data base maintenance, part of SSA's effort was to enter the NDMS requirements into an automated data base. This effort required 13.2 workyears.

- The contractor delivered the Enumeration Modernization Project (EMP) FRD to SSA on January 31, 1986. SSA review of that effort required further modification by SSA staff which was accomplished by March 14, 1986. The FRD was placed under configuration management and the design phases began in mid-March 1986. Some minor changes to the document may take place during the design phase. Since January 31, 1986, an estimated one-half workyear has been expended on this functional requirements document.

Mr. Roybal: Do you believe that it is prudent to proceed with staffing reductions when your software redesign effort appears to be behind schedule?

Mr. Sabatini: We will not reduce staff until the management, procedural and systems improvements are in place and working properly. The staff reductions contained in the FY 1987 President's budget submission are based on our latest information concerning the expected implementation dates of specific systems enhancements.

FIELD OFFICE POSITIONS

Mr. Roybal: Will you give preference to current employees in the Payment Centers and in Baltimore to retrain and relocate in field offices to fill the need for more GS-7 through 10 interviewers under the systems modernization program?

Mr. Sabatini: Again, at this time we do not see the need for additional interviewers, but we will continue to monitor implementation of the new claims process for its impact on staffing needs. As specific changes are implemented in the Processing Centers, affected employees will be retrained and reassigned to other jobs. While we do not anticipate an increase in the number of interviewing positions in our field offices, normal employee attrition through retirement and resignations will create vacancies into which Processing Center employees could be reassigned.

Mr. Roybal: Can you provide, for the record, a historical compilation of the number of claims representatives, service representatives, field representatives, operations supervisors and operations analysts in local field offices over the last 5 years and project ahead over the next 5 years?

Mr. Sabatini: The numbers of employees in the requested positions as of the end of each fiscal year from 1982 through 1986 to date are shown in the table below:

SOCIAL SECURITY ADMINISTRATION EMPLOYEES IN SELECTED POSITIONS

(End-of-Year)

Fiscal Year	Claims Reps.	Service Reps.	Field Reps.	Operations Supervisors	Operations Analysts
1982.......	14,180	6,498	1,068	2,560	501
1983.......	14,151	6,507	1,038	2,584	458
1984.......	13,806	6,379	1,005	2,599	440
1985.......	13,789	6,382	968	2,561	438
1986 (3/31/86)..	13,728	6,159	953	2,556	417

We have not made projections for the position categories you specify for local offices for the next 5 years.

ALZHEIMER'S DISEASE AND DISABILITY BENEFITS

Mr. Roybal: What are the Social Security Administration's current policies with regard to providing disability benefits to victims of Alzheimer's disease and related disorders? What assessment criteria are used to make the disability determination? At what point in the progress of the disease are people entitled to disability?

Mr. Sabatini: Under the law, to become eligible for Social Security disability benefits, a person's medically determinable physical or mental impairment must be so severe that it prevents any substantial gainful activity (SGA). This severity of impairment must also have lasted or be expected to last for 12 full months, or to result in death. All symptoms, clinical signs and findings, whether or not related to Alzheimer's disease, must be assessed.

SSA's policy for determining eligibility for disability benefits for individuals with Alzheimer's disease, therefore, is the same as for other impairments. That is, the severity of the impairment(s) is determined based on its effects on the individual's ability to function. For individuals with Alzheimer's disease and other organic mental disorders, the medical assessment criteria used to determine eligibility for disability benefits are covered in detail in the "Listing of Impairments," section 12.02, Mental Disorders, which was revised on August 28, 1985. For example, an individual with Alzheimer's disease would be found disabled in accordance with Listing 12.02 if the medical evidence substantiates the existence of the disease (e.g., the individual has memory loss, confusion for time and place, and changes in personality and mood) and the individual has marked restrictions in his/her activities of daily living and social relations.

When an individual with Alzheimer's disease cannot be found entitled to disability benefits on the basis of the severity or medical assessment criteria alone, the condition is then evaluated according to rules for assessing whether the individual, based on his/her residual functional capacity and age, education, and prior work experience can do his/her past relevant work or any other work. Thus, the individual may still be found to be disabled if his/her capacity to perform work-related activities is severely impaired. This usually occurs at a rather advanced age (beyond age 60) even though the disease process may begin earlier.

For example, an individual with Alzheimer's disease may have limitations in work-related activities due to the disease but the limitations are not at the level of restriction specified in Listing 12.02. Therefore, the individual cannot be found disabled on the basis of medical factors alone. We will then look to see what the individual can still do despite the impairment to determine if he/she can engage in substantial gainful activity. To do this, we determine how the disease has affected the individual's understanding and memory, ability to sustain concentration and persist, interact socially, and adapt to changes.

CONTINGENCY RESERVE

Mr. Roybal: Last year Congress increased SSA's contingency reserve fund from $50 million to $145 million. Your FY 1987 request is for $160 million, and again your primary rationale for the increase is to maintain SSA's flexibility in implementing the disability reform legislation of 1984. But I understand that OMB has denied your request to use the reserves for the continuing disability reviews. Is this true?

Mr. Sabatini: The Department requested that the Office of Management and Budget (OMB) permit SSA to use a portion of the contingency reserve for the Disability State Agencies. OMB returned the apportionment without approving use of the contingency reserve, and has raised some questions with us about the details of our request. We are now in the process of developing answers to these questions.

Mr. Roybal: If OMB denies the use of the reserves for the continuing disability reviews, can SSA continue to conduct the reviews in a fair and impartial manner?

Mr. Sabatini: We are committed to conducting continuing disability reviews (CDR's) in a fair and impartial manner. Regardless of the use of the contingency reserve for additional funding, we are committed to investing resources in each of our CDR's to make sure they are completed thoroughly and equitably. This means that, if necessary, we would reduce CDR workloads going to the States if we find that resources are not sufficient to do a quality job.

Mr. Roybal: If OMB will not allow SSA to use the reserve fund for its primary purpose, how do you plan to use the fund?

Mr. Sabatini: The contingency reserve is available to process workloads not anticipated in the budget estimates, for automation projects and their impact on the workforce, and for mandatory increases in the costs of Disability State Agencies--after maximum absorption of these costs within the basic Limitation on Administrative Expenses (LAE) account. If none of these unanticipated factors are present we would not use the contingency reserve.

SSI OUTREACH

Mr. Roybal: The Social Security Amendments of 1983 mandated the Social Security Administration to conduct a one-time outreach program to those aged individuals and couples whose Social Security benefits were less than SSI eligibility levels. From Administration figures, the outreach efforts were a success. Estimates are that 160,000 individuals contacted SSA regarding possible eligibility due to the outreach notices, with 86,000 individuals being awarded SSI benefits.

Currently SSA includes a notice in the Medicare eligibility packets, sent to individuals 2 months prior to their 65th birthday, on the possibility of eligibility for SSI benefits. What mechanism is there after this initial notification for outreach to an individual?

Mr. Sabatini: Currently we do not follow-up on outreach notices to newly-entitled Medicare beneficiaries.

Mr. Roybal: What is the current expenditure for the Medicare notification?

Mr. Sabatini: The current annual expenditure for the Medicare notice is about $20,000.

Mr. Roybal: What is the current expenditure for any other outreach efforts SSA is doing?

Mr. Sabatini: SSA will spend about $100,000 for other printed outreach materials this fiscal year.

Mr. Roybal: Does the Administration have any future plans to broaden current outreach efforts? If so, what are they?

Mr. Sabatini: SSI outreach activities will continue to be part of the agency's ongoing public affairs program.

Mr. Roybal: What is the administrative feasibility of enclosing a notice of potential SSI eligibility with benefit checks mailed to selectively targeted OASDI recipients once a year? What is the estimated cost of this proposal?

Mr. Sabatini: It is not feasible to enclose a notice of potential SSI eligibility with benefit checks to selectively targeted OASDI recipients because the Treasury Department cannot stuff check envelopes on a selective basis. Consequently, SSA cannot provide an estimated cost for this proposal.

Mr. Roybal: Is it feasible for private organizations, and State and local governments to conduct SSI outreach efforts? Do you have any future plans to work with private organizations?

Mr. Sabatini: Yes, it is feasible. In fact, last year SSA began enlisting the assistance of national organizations and other Federal agencies in conducting SSI outreach efforts. SSA plans to continue working with these organizations and agencies and to expand its efforts to include State and local governments.

Mr. Roybal: Is information relating to SSI eligibility made available in languages other than English in communities with substantial non-English speaking populations? Does the Administration use organizations with access to non-English speaking individuals to help with its outreach efforts?

Mr. Sabatini: Yes, publications for potential recipients are printed in Spanish for SSA field office use with the Hispanic population. SSA also prints and distributes a quarterly Spanish newsletter to 595 Hispanic organizations. In addition, the Administration enlists the help of Hispanic organizations in conducting outreach efforts. As we continue current outreach activities, we plan to expand efforts to include organizations with access to other non-English speaking individuals.

SSI OVERPAYMENTS

Mr. Roybal: In light of the provisions included in the Deficit Reduction Act of 1984 on SSI overpayments, in cases of overpayments to SSI beneficiaries, between 1979-1985, what is the rate of waiver of overpayment? What is the estimate for the waiver rate in 1986?

Mr. Sabatini. For the period 1979-1985, 14.75 percent of SSI overpayment dollars cleared were waivers. During this period we have terminated collection efforts on an additional 20.25 percent of SSI overpayment dollars, resulting in a total of 35 percent of all SSI overpayment dollars being written-off and not collected. Waiver rates have been declining, and with implementation of the 10 percent limitation on withholding from SSI benefit checks, the waiver rate fell from 8 percent in 1984 to 5.4 percent in 1985, and the total of SSI overpayments either waived or declared uncollectable fell from 23.5 percent in 1984 to 14.3 percent in 1985. For 1986, SSA expects to waive and/or terminate collection efforts on 20 percent of SSI overpayment dollars cleared.

Mr. Roybal: Have there been any changes in administrative procedures in response to report language expressing Congress' intent that waivers be made more readily available for unintentional or de minimus overpayments, or for those for which recovery would be inequitable given a recipient's present circumstances?

Mr. Sabatini: After passage of the Deficit Reduction Act of 1984, we implemented the limitation on withholding of overpayments from SSI benefit checks and the administrative waiver of overpayments caused by beneficiaries having liquid resources of $50 or less over the resource limitation. For overpayments of $10-$30 we do not pursue collection beyond the initial overpayment notice and request for repayment, and overpayments of less than $10 are administratively waived. All overpayment notices sent to SSI beneficiaries include notice of their right to file for a waiver. Waivers are granted to any beneficiary who is not at fault in causing the overpayment and does not have the ability to repay the overpayment, or where recovery would impede the efficient and effective administration of the program.

REORGANIZATION OF PROGRAMS AIDING FAMILIES

Mr. Stokes: On March 18, 1986, Dr. Bowen announced the creation of a new Family Support Administration, consolidating several Departmental programs serving families and children. These programs are aid to families with dependent children (AFDC), low income energy assistance, child support enforcement, refugee resettlement, the community services block grant and the WIN program. Why is this reorganization necessary at this time?

Mr. Sabatini: The reorganization of these programs at this time will provide an organizational foundation for welfare reform efforts and for implementation of any improvements which come out of the Domestic Council evaluation of welfare requested by the President. The newly consolidated operating division should lead to better program management and responsiveness on the part of HHS, because we will then have a single point of contact for income assistance and related programs serving poor, non-elderly families. Many of the State agencies through which these programs are administered are already organized in this fashion. So the merger at the Federal level should contribute to more direct agency-to-agency communication about the shared concern for poor families.

Mr. Stokes: Is this reorganization merely an effort to create an illusion of progress, when in fact most of these programs are subject to deep budget reductions in the FY 1986 and FY 1987 budgets?

Mr. Sabatini: The reorganization will improve the prospects for continued progress in the reform of welfare programs aiding poor families.

Most of these programs are not in fact subject to deep budget reductions in FY 1986 and FY 1987. In aggregate, the programs would be funded at $12.7 billion in FY 1986 and $11.4 billion in FY 1987 under the President's budget. The apparent reduction in budget authority reflects assumed collections of error rate disallowances that would reduce the amount of new budget authority necessary to finance AFDC benefits.

Mr. Stokes: Why were these particular programs selected for inclusion in the Family Support Administration?

Mr. Sabatini: These programs were selected because they are major HHS programs which help to support poor families. By bringing these programs together within a single operating division of the Department, we believe that these programs can be better managed and made more responsive to the needs of poor families.

Mr. Stokes: What will be the administrative costs and staffing associated with the Family Support Administration and how does this compare with the existing six programs?

Mr. Sabatini: The reorganization plan is budget neutral. The new operating division will include all of the administrative resouces budgeted in the existing programs. Under the President's budget request, these total approximately $75 million and 1,145 FTE's in FY 1986 and $69 million and 1,027 FTE's in FY 1987.

Mr. Stokes: Who will head the new Administration?

Mr. Sabatini: No decision has been made at this time as to who will head this new Administration.

AFDC PROPOSALS

Mr. Stokes: In his press statement announcing the reorganization, Dr. Bowen indicated that the strengthening of the family is one of his chief concerns at the Department. How will the Administration's FY 1987 budget request for the AFDC program help to strengthen poor families?

Ms. Ross: Two proposals in the FY 1987 budget are most directly targeted toward strengthening poor families.

The Work Opportunities proposal will strengthen poor families by helping them become self-sufficient. Participation in these programs will help build the self-esteem and financial potential of the parents. At the same time, parents engaged in productive activities will serve as better role models for their children. Work obtained through this program will provide the family with a sense of dignity which can never be obtained from welfare.

The second proposal which will help strengthen families is the proposal to limit assistance for minor parents (or caretaker relatives) who live outside their parents' home. Passage of this proposal will prevent AFDC from providing minor children with economic independence from their parents and encouraging them to leave their parents' home. Thus, it should help parents maintain influence over their minor children and keep families together.

Mr. Stokes: Your budget includes legislative proposals to reduce AFDC benefit payments and administrative costs. Page 75 of the budget justification states that proposed legislative savings are $236.742 million, but page 79 of the justification indicates that the savings are $421.742 million. Which number is correct?

Ms. Ross: The larger figure, $421.742 million reflects only the effects on AFDC benefits (Work Opportunities, $252 million; consolidation of refugee cash assistance, $48.742 million; eligibility and payment provisions, $121 million). The smaller figure reflects the net effects of the proposals on both benefits and administrative costs: $421.742 million benefit savings, plus $15 million savings from limitations on administrative matching, minus $200 million administrative cost for Work Opportunities.

Mr. Stokes: Why is it necessary to propose new legislation for the AFDC program at this time?

Ms. Ross: It is necessary to propose new AFDC legislation at this time in order to build upon reforms made during the first Reagan Administration in strengthening work requirements, targeting assistance, and improving program administration. The time is particularly appropriate for submission and passage of our Work Opportunities Initiatives proposal. A recent Gallup poll shows a strong national consensus as to the appropriateness of such work requirements for welfare recipients. The President has indicated his commitment to promoting independence as a fundamental goal of the welfare system. And, in the past year, we have gathered increasingly strong evidence, from a series of carefully designed research studies, that work activities are effective in building the confidence and self-esteem of its participants, in improving their employability, and in reducing welfare costs.

The other proposals represent sound public policy--improving the targeting of AFDC benefits, enhancing the effectiveness of earlier changes, and improving compatability with other programs. Given the strong Congressional interest in these goals and in reducing the Federal deficit, we believe that our proposals will receive serious consideration this year.

Mr. Stokes: What is the rationale for proposing the repeal of a longstanding requirement that all AFDC parents, caretaker relatives and dependent children be offered family planning services? Won't this proposal undermine ongoing efforts to reduce teenage pregnancies and promote family self-sufficiency?

Ms. Ross: That proposal was considered for inclusion in our FY 1987 legislative package as a technical amendment that would have removed two obsolete sections of the Social Security Act. The services covered by these sections are now provided under title XX of the Social Security Act, rather than under title IV-A.

Because of the confusion created by this proposal, we have decided not to include it in the bill we are submitting.

AFDC BENEFIT LEVELS AND FAMILIES SERVED

Mr. Stokes: The purchasing power of AFDC benefits rose in 1985 for the first time in 9 years. Nevertheless, even after this increase, AFDC benefits today are about one-third lower in real terms than in 1970. How many States have AFDC benefit levels that are lower than the Federal poverty standard? Please list these States for the record.

Ms. Ross: All States' AFDC benefit levels, by themselves, are lower than the poverty threshold. However, virtually all AFDC recipients also receive other benefits, such as Medicaid, Food Stamps, school lunches, and subsidized housing. The cash value of this total package of benefits frequently exceeds the poverty level.

Mr. Stokes: How many families will receive AFDC in FY 1987 as compared with FY 1986 and FY 1985? What are the reasons for the increase/decrease?

Ms. Ross: We project that under current law the average number of families receiving AFDC monthly will be 3,711,000 in FY 1987, up slightly from 3,691,000 in FY 1986 and 3,685,000 in FY 1985. The principal factor contributing to this increase is a projected rise in the number of needy families headed by a single adult.

TRAVEL BUDGET FOR ASSISTANCE PAYMENTS

Mr. Stokes: Under the AFDC program (page 82 of the justification), travel and transportation costs are projected to increase nearly 50 percent, from $696 thousand to $1.024 million. Since you are reducing costs in other parts of the AFDC program, why should we increase the travel budget?

Ms. Ross: Prior to sequestration of funds due to the Gramm-Rudman-Hollings Act, our estimates for travel and transportation expenditures in the Assistance Payments account for FY 1986 and FY 1987 were at the same level--$1,024,000 in each year. The difference between the FY 1986 estimate of $696,000 and the FY 1987 request of $1,024,000 shown in SSA's budget justification is that the FY 1986 travel budget was substantially reduced to help us meet the Gramm-Rudman-Hollings target for AP administrative expenses. To the extent that we find we are unable to carry out our basic responsibilities with this level of travel funds in FY 1986, we will meet the Gramm-Rudman-Hollings target with additional reductions in other administrative areas. FY 1987 administrative expenses are not affected by the Gramm-Rudman-Hollings reductions, and the FY 1987 request for travel and transportation costs is our best estimate of what is needed to carry out the necessary program and financial activities of the Assistance Payments Program.

AFDC ERROR RATE DISALLOWANCES

Mr. Stokes: The budget assumes that $777.2 million will be collected in FY 1987 from State penalties assessed for State error rates which exceed mandated levels. How realistic is this assumption?

Ms. Ross: At the time we developed the budget for FY 1987, we believed it was reasonable to plan for collection of this disallowance amount. However, if the "Consolidated Omnibus Reconciliation Act", which provides for a two-year moratorium on collections, is signed by the President we will not proceed with further disallowance collection activity at this time.

Mr. Stokes: How much has been collected to date in State fiscal sanctions?

Ms. Ross: To date, there has been no collection of AFDC disallowances. All 22 States not receiving waivers of FY 1981 disallowances have filed appeals, which are now pending before the Departmental Grants Appeals Board.

Mr. Stokes: What States are currently liable for error rate sanctions?

Ms. Ross: There were 28 States subject to disallowances for excess errors in FY 1981. Six of these States received full waivers; the remaining 22 States liable for disallowances are:

Alabama
California
Colorado
Connecticut
Florida
Hawaii
Idaho
Indiana
Kansas
Maine
Minnesota
Nebraska
New Mexico
New York
Ohio
Oklahoma
Puerto Rico
South Dakota
Tennessee
Texas
Washington
Wyoming

FY 1981 is the first year for which action has been taken to collect disallowances for excess erroneous payments. For FY 1982-FY 1984, we have included the attached tables which show which States exceeded their target error rates, and therefore may be subject to potential disallowances.

AFDC QUALITY CONTROL

	PAYMENT ERROR RATE			
	OCT. 1981- MAR. 1982	APR. 1982- SEP. 1982	FISCAL YEAR 1982	TARGET RATE
U.S. TOTAL......	7.2	6.6	6.9	--
ALABAMA.........	5.5	5.1	5.3	5.8
ALASKA..........	12.9	11.3	12.1	13.1
ARIZONA.........	11.6	11.7	11.6	5.3
ARKANSAS........	8.8	5.2	7.0	5.7
CALIFORNIA......	7.4	4.6	6.0	4.0
COLORADA........	5.2	8.0	6.6	4.1
CONNECTICUT.....	5.3	7.4	6.4	5.5
DELAWARE........	10.4	13.5	11.9	8.0
DIST. OF COL....	17.6	16.7	17.1	10.1
FLORIDA.........	6.3	5.8	6.0	4.5
GEORGIA.........	4.8	5.5	5.1	5.3
GUAM............	--	--	--	--
HAWAII..........	8.7	7.7	8.2	5.7
IDAHO...........	4.7	6.1	5.4	4.1
ILLINOIS........	7.7	8.8	8.2	8.4
INDIANA.........	3.5	4.3	3.9	4.0
IOWA............	4.1	4.9	4.5	5.3
KANSAS..........	5.6	0.1	2.8	4.0
KENTUCKY........	3.4	3.8	3.6	6.1
LOUISIANA.......	6.4	5.9	6.2	6.4
MAINE...........	5.3	2.9	4.1	5.7
MARYLAND........	9.1	7.3	8.2	7.2
MASSACHUSETTS...	5.5	9.4	7.4	8.0
MICHIGAN........	8.8	7.6	8.2	5.7
MINNESOTA.......	3.1	3.0	3.0	4.0
MISSISSIPPI.....	5.0	4.5	4.7	6.5
MISSOURI........	6.1	3.4	4.8	6.0
MONTANA.........	1.1	3.8	2.5	5.9
NEBRASKA........	5.9	13.2	9.6	4.2
NEVADA..........	1.5	1.0	1.3	4.0
NEW HAMPSHIRE...	5.8	5.9	5.9	6.3
NEW JERSEY......	9.4	5.2	7.3	5.8
NEW MEXICO......	11.9	9.2	10.5	4.3
NEW YORK........	6.8	9.1	8.0	5.6
NORTH CAROLINA..	3.7	2.8	3.3	5.3
NORTH DAKOTA....	1.3	2.5	1.9	4.0
OHIO............	7.7	7.5	7.6	5.8
OKLAHOMA........	4.7	2.9	3.8	4.0
OREGON..........	7.3	6.8	7.1	6.9
PENNSYLVANIA....	9.4	7.6	8.5	8.1

AFDC QUALITY CONTROL

	PAYMENT ERROR RATE			
	OCT. 1981-MAR. 1982	APR. 1982-SEP. 1982	FISCAL YEAR 1982	TARGET RATE
PUERTO RICO.....	9.7	8.1	8.9	5.3
RHODE ISLAND....	5.8	5.5	5.7	6.9
SOUTH CAROLINA..	9.4	8.4	8.9	5.0
SOUTH DAKOTA....	3.8	3.6	3.7	4.3
TENNESSEE.......	5.6	4.3	4.9	5.0
TEXAS...........	8.8	7.9	8.4	5.0
UTAH............	5.4	4.6	5.0	4.0
VERMONT.........	5.7	3.3	4.5	4.2
VIRGIN ISLANDS..	2.7	6.5	4.6	6.4
VIRGINIA........	3.3	4.8	4.1	6.6
WASHINGTON......	7.3	5.6	6.4	4.9
WEST VIRGINIA...	8.1	8.4	8.2	6.4
WISCONSIN.......	8.0	4.9	6.5	6.4
WYOMING.........	3.8	5.6	4.8	4.0

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* WEIGHTED: EACH 6-MONTH ERROR RATE IS WEIGHTED BY THE PERCENTAGE OF TOTAL ANNUAL PAYMENTS THAT WAS EXPENDED IN THAT PERIOD.

AFDC QUALITY CONTROL

	PAYMENT ERROR RATE			
	OCT. 1982- MAR. 1983	APR. 1983- SEP. 1983	FISCAL YEAR 1983	TARGET RATE
U.S. TOTAL......	6.2	6.8	6.5	4.0
ALABAMA.........	3.9	2.5	3.2	4.0
ALASKA..........	20.6	10.8	15.5	4.0
ARIZONA.........	10.4	9.7	10.0	4.0
ARKANSAS........	4.1	5.6	4.9	4.0
CALIFORNIA......	4.8	4.8	4.8	4.0
COLORADA........	6.3	6.1	6.2	4.0
CONNECTICUT.....	4.4	4.4	4.4	4.0
DELAWARE........	7.9	10.9	9.4	4.0
DIST. OF COL....	13.5	12.8	13.1	4.0
FLORIDA.........	5.2	3.9	4.5	4.0
GEORGIA.........	5.6	5.8	5.7	4.0
GUAM............	24.3	15.5	19.7	4.0
HAWAII..........	5.1	8.8	6.9	4.0
IDAHO...........	0.9	5.1	3.0	4.0
ILLINOIS........	7.9	5.7	6.8	4.0
INDIANA.........	5.4	4.2	4.9	4.0
IOWA............	2.3	4.5	3.4	4.0
KANSAS..........	3.3	6.9	5.1	4.0
KENTUCKY........	3.2	3.6	3.4	4.0
LOUISIANA.......	6.6	4.8	5.7	4.0
MAINE...........	4.4	4.7	4.5	4.0
MARYLAND........	5.4	5.1	5.3	4.0
MASSACHUSETTS...	11.2	11.6	11.4	4.0
MICHIGAN........	9.2	9.1	9.1	4.0
MINNESOTA.......	2.4	2.7	2.6	4.0
MISSISSIPPI.....	4.4	2.7	3.5	4.0
MISSOURI........	3.1	3.8	3.4	4.0
MONTANA.........	1.8	3.2	2.5	4.0
NEBRASKA........	2.0	7.2	4.7	4.0
NEVADA..........	1.0	4.8	2.7	4.0
NEW HAMPSHIRE...	4.3	4.3	4.3	4.0
NEW JERSEY......	5.7	7.0	6.4	4.0
NEW MEXICO......	8.1	4.0	6.0	4.0
NEW YORK........	7.1	11.7	9.4	4.0
NORTH CAROLINA..	2.1	3.3	2.7	4.0
NORTH DAKOTA....	1.8	2.4	2.1	4.0
OHIO............	5.7	5.6	5.6	4.0
OKLAHOMA........	5.4	2.8	4.1	4.0
OREGON..........	4.5	7.4	6.0	4.0
PENNSYLVANIA....	8.7	9.5	9.1	4.0

AFDC QUALITY CONTROL

	PAYMENT ERROR RATE			
	OCT. 1982- MAR. 1983	APR. 1983- SEP. 1983	FISCAL YEAR 1983	TARGET RATE
PUERTO RICO.....	7.0	10.2	8.6	4.0
RHODE ISLAND....	5.6	6.9	6.2	4.0
SOUTH CAROLINA..	7.6	6.6	7.1	4.0
SOUTH DAKOTA....	1.3	2.9	2.1	4.0
TENNESSEE.......	5.0	4.0	4.5	4.0
TEXAS...........	8.3	6.0	6.9	4.0
UTAH............	4.2	7.2	5.7	4.0
VERMONT.........	8.1	7.7	7.9	4.0
VIRGIN ISLANDS..	9.2	7.9	8.6	4.0
VIRGINIA........	3.7	3.8	3.8	4.0
WASHINGTON......	4.8	4.8	4.8	4.0
WEST VIRGINIA...	3.2	2.8	3.0	4.0
WISCONSIN.......	4.9	5.2	5.1	4.0
WYOMING.........	5.3	9.9	7.7	4.0

* WEIGHTED: EACH 6-MONTH ERROR RATE IS WEIGHTED BY THE PERCENTAGE OF TOTAL ANNUAL PAYMENTS THAT WAS EXPENDED IN THAT PERIOD.

AFDC QUALITY CONTROL

	PAYMENT ERROR RATE			
	OCT. 1983- MAR. 1984	APR. 1984- SEP. 1984	FISCAL YEAR 1984	TARGET RATE
U.S. TOTAL	6.2	5.8	6.0	--
ALABAMA	3.6	5.1	4.4	3.0
ALASKA	6.5	7.1	6.8	3.0
ARIZONA	8.4	10.9	9.7	3.0
ARKANSAS	4.3	3.4	3.8	3.0
CALIFORNIA	5.5	4.8	5.2	3.0
COLORADA	4.3	4.9	4.6	3.0
CONNECTICUT	3.4	3.4	3.4	3.0
DELAWARE	7.0	8.6	7.8	3.0
DIST. OF COL.	10.7	11.8	11.2	3.0
FLORIDA	6.2	4.5	5.4	3.0
GEORGIA	6.5	5.8	6.2	3.0
GUAM	18.4	25.3	21.9	4.0
HAWAII	7.5	5.7	6.7	3.0
IDAHO	11.4	8.0	9.7	3.0
ILLINOIS	6.3	6.7	6.5	3.0
INDIANA	3.7	4.2	4.0	3.0
IOWA	4.1	3.2	3.7	3.0
KANSAS	5.1	5.9	5.5	3.0
KENTUCKY	4.7	3.6	4.1	3.0
LOUISIANA	5.8	5.8	5.8	3.0
MAINE	3.7	4.6	4.1	3.0
MARYLAND	6.2	5.1	5.7	3.0
MASSACHUSETTS	8.5	7.1	7.8	3.0
MICHIGAN	9.3	6.4	8.0	3.0
MINNESOTA	1.9	2.1	2.0	3.0
MISSISSIPPI	1.4	2.7	2.0	3.0
MISSOURI	3.4	4.0	3.7	3.0
MONTANA	3.2	10.6	6.9	3.0
NEBRASKA	8.0	5.8	6.9	3.0
NEVADA	2.3	1.9	2.1	3.0
NEW HAMPSHIRE	5.8	9.3	7.5	3.0
NEW JERSEY	5.8	4.4	5.1	3.0
NEW MEXICO	6.1	5.8	5.9	3.0
NEW YORK	6.5	7.7	7.1	3.0
NORTH CAROLINA	4.4	2.6	3.5	3.0
NORTH DAKOTA	3.1	5.8	4.7	3.0
OHIO	6.2	6.6	6.4	3.0
OKLAHOMA	3.0	3.1	3.0	3.0
OREGON	4.8	4.4	4.6	3.0
PENNSYLVANIA	9.4	8.8	9.1	3.0

AFDC QUALITY CONTROL

	PAYMENT ERROR RATE			
	OCT. 1983- MAR. 1984	APR. 1984- SEP. 1984	FISCAL YEAR 1984	TARGET RATE
PUERTO RICO.....	9.8	5.6	7.7	4.0
RHODE ISLAND....	4.2	3.1	3.7	3.0
SOUTH CAROLINA..	8.1	7.5	7.8	3.0
SOUTH DAKOTA....	3.9	2.0	2.9	3.0
TENNESSEE.......	4.1	4.4	4.3	3.0
TEXAS...........	6.6	4.8	5.7	3.0
UTAH............	5.4	6.1	5.8	3.0
VERMONT.........	6.0	5.6	5.8	3.0
VIRGIN ISLANDS..	1.9	3.0	2.4	4.0
VIRGINIA........	4.1	2.8	3.5	3.0
WASHINGTON......	3.7	4.5	4.1	3.0
WEST VIRGINIA...	4.1	5.5	4.8	3.0
WISCONSIN.......	6.0	7.2	6.6	3.0
WYOMING.........	7.1	4.2	5.6	3.0

* WEIGHTED: EACH 6-MONTH ERROR RATE IS WEIGHTED BY THE PERCENTAGE OF TOTAL ANNUAL PAYMENTS THAT WAS EXPENDED IN THAT PERIOD.

FEDERAL MATCHING FOR STATE AUTOMATED SYSTEMS

Mr. Stokes: The FY 1987 budget proposes legislative language to reduce the special Federal matching rate to the States for the development and operation of Statewide automated claims and information retrieval systems. Won't this hinder State efforts to reduce AFDC error rates?

Ms. Ross: Enhanced funding for systems development has been available since July 1981. To date, 40 States have obtained approval to proceed with development of FAMIS-type systems. Eight States have already been certified as meeting the Federal requirements and several other States are close to qualifying for certification. The reduction to 75 percent is an interim step which would be effective in FY 1987 through FY 1989 after which funding would return to the normal matching rate of 50 percent. This reduction should act as an incentive to encourage additional States to complete their implementation as soon as possible. Thus, this provision should lead to earlier benefits in terms of administrative improvement and error reductions.

REAUTHORIZATION OF THE ENERGY PROGRAM

Mr Stokes: New legislation to reauthorize low income energy assistance will be required for FY 1987. The Administration has indicated that it will propose the necessary legislation. Do you plan any major changes in the funding formula or in the way the program currently operates? If so, please describe.

Ms. Ross: Our legislative proposal, which was submitted to the Congress on March 14, does not include any formula amendments. Our proposal would reauthorize the program, with minor refinements, for three years at a funding level of $2.1 billion. The program refinements that we propose would:

- Remove the current 15 percent limitation on the amount of LIHEAP funds a State may use for weatherization.
- Require that States coordinate energy assistance programs by taking assistance with home energy costs provided by other public (not private) programs into account when setting LIHEAP benefits levels, in the same manner that States now are required to consider a household's income and energy costs.
- Improve the section on State applications and plans by eliminating overlapping and duplicative provisions.
- Eliminate the requirement that States provide data on energy usage and costs as part of their annual applications.
- Modify the current statutory language to conform LIHEAP provisions to the nondiscrimination provisions in the other block grants administered by HHS and to remove any ambiguity about the relationship of the LIHEAP provisions to title IX of the Education Amendments of 1972.

AVERAGE ENERGY PAYMENT AND HOUSEHOLDS SERVED

Mr. Stokes: For FY 1986, you estimate in the budget justification that the average payment per household for heating costs will drop from $241 to $226. Why is that? What are your projections for average household payment and number of people served in FY 1987?

Ms. Ross: Under the block grant, States have substantial flexibility in setting both eligibility criteria and benefit levels. In FY 1986, States expect to serve more households than in FY 1985. The appropriation for LIHEAP is the same in FY 1986 (before the Gramm-Rudman-Hollings reduction) as it was in FY 1985. Therefore, the average benefit level is lower. Eleven States raised (loosened) their income eligibility criteria in FY 1986 relative to FY 1985 (eight of these States did so to meet the new requirement under the Human Services Reauthorization Act that income eligibility levels be at least 100 percent of the poverty level), while six States lowered (restricted) their income eligibility criteria for their main heating assistance programs. Twenty States lowered their average heating assistance benefit levels in FY 1986, while nine States raised average benefits.

Because of the flexibility States have in setting eligibility criteria and benefit levels, as well as the amount of funds transferred to other block grants, used for administrative purposes, or carried over for use in the subsequent fiscal year, we do not make projections of average benefit levels or of the numbers of households to be served in the future.

TRANSFERS FROM THE ENERGY PROGRAM GRANT

Mr. Stokes: The budget justification also indicates that in 1985, 29 States transferred money out of the block grant to other block grants. Please provide for the record a list of those States and the amounts transferred to other block grants.

Ms. Ross: This information follows.

FY 1985 Transfers from LIHEAP to other HHS Block Grants

State	Amount Transferred to other HHS Block Grants
Alabama	$911,677
Alaska	400,000
Arizona	0
Arkansas	1,397,315
California	9,792,326
Colorado	3,329,885
Connecticut	0
Delaware	0
District of Columbia	0
Florida	2,897,004

State	Amount Transferred to other HHS Block Grants
Georgia	$1,980,234
Hawaii	0
Idaho	1,261,118
Illinois	0
Indiana	0
Iowa	0
Kansas	1,821,098
Kentucky	2,914,145
Louisiana	1,800,000
Maine	0
Maryland	0
Massachusetts	0
Michigan	11,300,000
Minnesota	0
Mississippi	0
Missouri	4,802,579
Montana	1,229,767
Nebraska	1,903,228
Nevada	253,500
New Hampshire	0
New Jersey	8,204,000
New Mexico	0
New York	15,900,000
North Carolina	3,010,856
North Dakota	1,461,184
Ohio	0
Oklahoma	0
Oregon	2,580,801
Pennsylvania	0
Rhode Island	0
South Carolina	0
South Dakota	1,143,422
Tennessee	2,591,823
Texas	4,820,563
Utah	1,482,676
Vermont	49,000
Virginia	0
Washington	4,089,634
West Virginia	1,157,107
Wisconsin	3,000,000
Wyoming	619,547

OIL OVERCHARGE FUNDS

Mr. Stokes: Last year, you proposed to offset the appropriation for low income energy assistance by receipts from oil overcharge collections. Congress never approved this proposal, but, what is the current status of oil overcharge collections? Is there any plan to apply a portion of these funds to the low income energy assistance program?

Ms. Ross: A large amount of oil overcharge funds has already been distributed. The two distributions with the most impact on the Low Income Home Energy Assistance Program were made under the "Warner Amendment" and the Exxon settlement. In FY 1983, Congress directed the Department of Energy (DOE) to distribute $200 million to States to be used, at the governors' discretion, for LIHEAP or any of four energy conservation programs administered by DOE. On March 6, 1986, the Department of Energy distributed to States about $2.1 billion in Exxon funds at the direction of the Federal District Court. These funds are to be used in the same manner as the "Warner Amendment" funds.

We understand from the Department of Energy that it anticipates collecting approximately $4 billion in additional oil overcharge funds. (A little over $1 billion of that amount is currently being held in escrow.) The disposition of these funds has not been determined at this time.

The Administration has not proposed to offset the FY 1987 LIHEAP appropriation by receipts from oil overcharge collections. It is our understanding that future oil overcharge collections are considered in the Senate's budget resolution.

SOCIAL SECURITY TAX RATES

Mr. Hoyer: Recently there has been some discussion over the merits of cutting Social Security taxes. What is your position on this issue?

Mr. Sabatini: As you know, major Social Security financing legislation in 1983 contained benefit and tax adjustments sufficient to relieve the immediate financing crisis caused by the poor performance of the economy in the early 1980's and to place the system in long-run (75-year) financial balance. In the long range, close actuarial balance is achieved through the accumulation of substantial assets in the trust funds during the remainder of this century, to be drawn down thereafter as the "baby boom" generation reaches retirement age.

The tax and benefit provisions put into place in 1983 were based on a carefully worked out compromise plan designed to assure the financial soundness of Social Security and to restore public confidence in the system. Any proposed change that could threaten the careful balance achieved in 1983 should be subject to the most intensive scrutiny and analysis.

AFDC LEGISLATIVE PROPOSALS

Mr. Hoyer: How many AFDC recipients will lose benefits due to your proposal to terminate benefits at age 16?

What is the rationale for this proposal?

Ms. Ross: First, I would like to clarify that this proposal does not directly affect the benefits of children. Instead, it terminates the benefits for employable caretaker relatives when their youngest child turns 16. As a result, we estimate that 83,000 cases would have reduced benefits under the proposal and 16,000 cases would have increased benefits.

The proposal is designed to help reduce prolonged welfare dependency and to provide a better transition from welfare to self-support for families which will soon face a total loss of AFDC eligibility when the child turns 18, or 19 at State option.

Under the current system, the problems associated with a long period of detachment from the labor force come to a head when the youngest child becomes too old to receive AFDC. The family's entire assistance payment ends abruptly at this point, rather than being phased out.

The proposal affects benefits only where the caretaker is employable and would not qualify for an exemption from work program requirements. Those affected will maintain eligibility to participate in AFDC work program activities. This will help ease their transition to self-support.

Mr. Hoyer: What is the rationale for the Administration's proposal to deny benefits to unmarried minor mothers who leave their parent's home for no compelling reason except to qualify for a greater AFDC benefit?

Ms. Ross: Our proposal is intended to prevent the break up of families and to help parents maintain influence over their minor children. It would reduce the likelihood of a minor mother leaving her parent's home, since this would make her ineligible for AFDC.

WORKFARE PROPOSAL

Mr. Hoyer: You have again proposed your workfare program. I believe honestly, that there may be increasing support for such a program but not as you have proposed.

Administrators in my State have suggested that your program leads only to short-term jobs in the secondary labor market, seldom removing people permanently from poverty.

And secondly even a modest work opportunities program would require an expenditure of $2.65 million in Maryland State General Funds as compared with the present State outlay of $530,000 for the WIN program.

Please respond to these two assertions.

Ms. Ross: Underlying the first assertion of the administrators in your State appears to be an assumption that the Administration's proposed program is narrow in scope with little flexibility in design or variability in outcomes. This is not a valid assumption. The program accommodates a wide range of activities, from short-term job search directed at immediate placement to longer-term training and subsidized employment. Depending upon the individual participant, the administration of the program, the State economy and other factors, many activities can result in a job with significant income, growth potential and stability. Based on results of work program research, we should not assume that activities like employment search and work experience (CWEP), which have been the core of Administration proposals, produce only minimal, short-term results which do not last. In North Carolina, counties with CWEP programs have seen a much lower rate of return to welfare among income earners than have non-CWEP counties. This difference was maintained over time. Studies in San Diego showed that participants in CWEP and employment search experienced substantial increases in employment and earnings, and these gains were sustained over time. A study in Maryland found no evidence that job search raised employment levels by pushing individuals to accept inferior jobs. Those subject to work program requirements accepted similar jobs to those who were not involved in work program activities. Also, they showed significant gains in employment and earnings, which increased over time.

Regarding the second assertion, under our Work Opportunities Initiatives proposal, some State governments could be required to pay a larger share of the costs of operating work program activities in their States. This depends on their current mix of WIN and IV-A work program options. If we assume $5.3 million in costs of operating a program in Maryland, the State share would be $2.65 million, compared to $530,000 under the WIN program's 90/100 matching rates.

We are proposing this shift in funding because the Federal Government currently bears a disproportionate share of the costs of operating these programs. States should pay much more than 10 percent of the costs, given that they enjoy 46 percent of the AFDC savings which result from work program activities. Given the Federal budgetary situation, requiring States to bear a more equitable share of work program costs seems reasonable.

Furthermore, according to our estimates, despite these larger outlays by the State, Maryland should enjoy net savings under this proposal. State AFDC savings resulting from these new activities will exceed the additional State outlays.

Finally, the funding of this new program has a major advantage for States over the existing WIN funding system. Federal funds are not limited by a funding cap; a 50-50 open-ended Federal match will be available.

EMPLOYMENT REDUCTIONS

Mr. Hoyer: Last year the GAO investigation revealed that SSA had no evidence to support the planned drastic reduction in SSA staff (#5 Cong. Rec. 12/4/85). This related to the 17,006 FTE reduction by 1990. If your appropriation request is approved in FY 1987 you will have reduced FTE's by 4,079 to 73,270. As recently as 1984 there were 80,253 FTE's authorized in SSA (80,253-73,270 = 6,983). Do you now have any evidence that these reductions can be sustained without reducing service to the public?

Specifically, where is your evidence to support these drastic reductions?

Mr. Sabatini: We are committed to achieving approximately a 20 percent reduction in SSA staffing from the FY 1984 level through FY 1990, without reducing service to the public. Through FY 1986, we have achieved an 8 percent reduction in FTE's over our FY 1983 level, and by all indications our service to the public has improved. Both backlogs and processing times are down.

Mr. Hoyer: Reductions of 3,300 in FY 1988, 3,400 in FY 1989 and 3,000 in FY 1990 are still to come. Where is the evidence to support these reductions?

Mr. Sabatini: As I have stated previously, the 20 percent reduction goal by FY 1990 is just that, a goal. We will approach this goal one year at a time as concrete management, procedural and systems improvements permit, maintaining our service level while at the same time allowing us to decrease employment. We have provided details for our proposed FY 1987 reduction in the justification submitted to the Committees.

Mr. Hoyer: It is my understanding that the software redesign currently being developed will affect service quality, flexibility and the ability of the SSA to quickly respond to legislative changes. Isn't it true that subsequent systems changes will affect staffing only marginally? If not true please explain.

Mr. Sabatini: The software redesign will affect service quality, flexibility, and our ability to respond to legislative changes in a positive way. The design of our new hardware and software systems has already improved our ability to make programming changes required to implement legislative initiatives more quickly with less manual intervention. Our experience with benefit rate increases is a prime example. Over the next several years, we will continue to modernize the management of our data bases which will further enhance our ability to respond quickly to legislative mandates.

Currently, we are implementing the "front-end" or field office claims taking aspect of the new modernized claims system. As we approach national implementation in 1987 and 1988, personnel savings and improved service to the public will result. However, in the longer run, we are also working to modernize the "back-end," or systems and record keeping aspects of the claims system. There is potential for equal or even greater savings with these changes since many labor intensive, manual processes will be automated.

SOFTWARE REDESIGN PROJECTS

Mr. Hoyer: What is the status of the first four software projects relating to the Systems Modernization Plan (SMP) that have been delivered to the SSA, i.e., (1) Annual Wage Reporting (AWR), (2) National Debt Management System (NDMS), (3) Program Center Control Systems (PCCS) and (4) the Enumeration Modernization Program (EMP)?

Mr. Sabatini: The statuses are as follows:

1. The Annual Wage Reporting (AWR) redesign project was initiated in order to modernize the SSA's earnings process, to post earnings to individual records more efficiently. The project was to result in improved controls of the earnings process, online balancing and validation and improved Management Information (MI). A Request for Proposal (RFP) was released to industry. Measurable improvements in the current earnings process resulted in SSA's posting tax year 1984 earnings by November 15, 1985. Because of these and other improvements, together with an anticipated decrease paper earnings statements due, in part, to new Internal Revenue Service regulations, SSA cancelled the RFP in order to reevaluate alternatives for future AWR processing.

2. The National Debt Management System (NDMS) redesign project was initiated in order to consolidate debt processing for all SSA programs, to improve control, monitoring and accounting for debts, to provide for consolidated billing and to improve MI. Functional requirements, defining what products and services are to be provided by the NDMS system have been completed. NDMS software is currently being developed and prototype software has been installed for evaluation by the SSA user community. Initial implementation of the new NDMS production software is planned for August 1986, and this effort is currently on schedule.

3. The Processing Center Control System (PCCS) will result in the development of a consolidated case control system for SSA's processing centers to replace existing obsolete systems. Improvements in the control of workflow, paper and system products are expected to result from this effort. The PCCS functional requirements have been defined and the system design phase is nearing completion. This design effort is defining the technical specifications which will describe how the PCCS system will implement the new functional requirements.

   The PCCS design effort is progressing on schedule; however, initial implementation will be delayed approximately 5 months due to delays in acquiring hardware needed to support the new PCCS software system. Based upon our most recent hardware acquisition projections, we will be able to begin phased installation of the PCCS software in September 1987.

4. The Enumeration Modernization Project (EMP) will result in faster issuance of Social Security numbers (SSN's), improved MI, online processing of SSN applciations and automated control and audit functions. Functional requirements have been completed and were recently approved by the SSA user community. System design analysis is now underway, with initial software implementation scheduled for January 1987.

Mr. Hoyer: Isn't it true that each of the contracts is unusable as presented and had to have major reworking?

Mr. Sabatini: It is true that all of the functional requirements developed by private contractors have required some amount of additional work by SSA personnel in order to finalize the requirements and obtain formal acceptance by the SSA user community. We do not characterize this additional effort as "reworking" the contractors' deliverables. The need for additional SSA effort was expected and is considered a normal activity when utilizing private contractors to perform a portion of the system development life cycle.

The various functional requirements documents that have been developed by private contractors to date are all considered to be usable; recognizing that some degree of modification is natural as the products are reviewed and accepted by the various SSA components.

Each of the software products delivered by contractors required different expenditure of SSA effort. Specifically:

- The Annual Wage Reporting (AWR) contractor deliverables (general system design document, functional requirements and system specification) received SSA user approval and were accepted by SSA. These deliverables were used as the basis for a sample design incorporated into the implementation of the Request for Proposal (RFP).

- The contractor was not required to develop a data base of requirements for the National Debt Management System (NDMS); therefore, we are unable to address the allegation that 98 percent of the items in the NDMS data base required alteration. The contractor-developed NDMS FRD required additional work by SSA staff in order to expand the detail of the requirements prior to implementation. Since a tool was later adopted by SSA for requirements data base maintenance, part of SSA's effort was to enter the NDMS requirements into an automated data base. This effort required 13.2 workyears.

- The Processing Center Control System (PCCS) functional requirements, developed by a contractor, were accepted by SSA and did not require major reworking. User input was made to the document as part of change control and maintenance activities.

- The contractor delivered the Enumeration Modernization Project (EMP) FRD to SSA on January 31, 1986. SSA review of that effort required further modification by SSA staff which was accomplished by March 14, 1986. The FRD was placed under configuration management and the design phases began in mid-March 1986. Some minor changes to the document may take place during the design phase. Since January 31, 1986, an estimated one-half workyear has been expended on this functional requirements document.

FIELD OFFICE STAFFING

Mr. Hoyer: How many district offices or branch offices have no clerical staff whatsoever? How many are understaffed?

What percentage of your field support staff are temporaries and particularly vulnerable with respect to Gramm-Rudman-Hollings?

Mr. Sabatini: I am unaware of any offices currently without clerical support. On a national basis, SSA's field offices are adequately staffed. Allocations of personnel ceilings are made to the Regional Commissioners from the resources available to SSA. Staff levels in individual offices are determined by the Regional Commissioners and the local managers. This is done so that the characteristics of the local population and workloads they generate can be taken into account, and a proper staff level and mix can be determined.

SSA employs several types of temporaries, which make up about 4-5 percent, of our field office staff. Within this group of temporary employees, the summer youth employment program is most vulnerable to reductions due to Gramm-Rudman-Hollings.

REVIEW OF FIELD OFFICES

Mr. Hoyer: What is the status of your review of the field offices? When do you expect to have to have some formal recommendations?

Mr. Sabatini: The facility reviews have begun, and about 250 sites have been reviewed. These reviews have not resulted in any recommendations for closings. As a result of the reviews we have been able to "fine tune" the service delivery network in some areas. Examples of fine tuning would be extending toll-free phone service into an area, or transferring certain workload responsibilities from one office to another.

SERVICE TO THE PUBLIC

Mr. Hoyer: Overall, GAO has assessed Social Security services positively. However, they have identified specific areas where there is a need for improvement--telephone service, waiting time, service to the disabled, improved clarity in written communications, for example--how is the Social Security Administration addressing these?

Mr. Sabatini: We are pleased to have GAO confirmation of the positive public perception of the services we provide. At the same time we recognize that there are areas we need to continue to work on, and we are doing so.

We continually try to make it convenient for the public to contact SSA by telephone. To control telephone traffic, SSA established teleservice centers, primarily in major urban areas. In addition, we incorporate the need for telephone service into our service delivery reviews. For example, as a result of the recent review of South Dakota offices, we concluded that toll-free telephone service should be offered.

The findings of the GAO report reflect our efforts. "Those who visited or reached SSA by telephone found SSA employees very courteous and clear in explaining the programs and rules, generally were satisfied to very satisfied with the amount of time it took to complete their business, and believed that SSA did a good to very good job in handling the purpose of the contact." The report also noted that 75 percent of callers got through to the SSA office in one or two calls. We strive to provide courteous, sensitive and dignified service to all the public, including the disabled.

Waiting time, nationally, has not been a problem. There are some localized exceptions to this which we are looking into. As a stop-gap measure we recently provided some additional employment to several of these areas in order to reduce current waiting times.

Over the past few years, SSA has modified buildings to make them accessible to the handicapped, and we plan, as leases expire, to make further improvements in field office space to accomodate the handicapped.

Our written communications are an area where we have a well-established plan. Standards were published in 1985 and outside consultants hired to advise us and to conduct training for our employees who write our form letters. Additionally, we are in the process of hiring an outside consultant for the express purpose of testing proposed notices for public reaction prior to use.

Mr. Hoyer: By 1989, the number of Social Security beneficiaries will increase by 2.6 million. It seems that even with the same number of Social Security claims-takers and managers that are currently serving the public, the problems of long waits and the necessity of repeated attempts to contact an office by phone would also increase due to the enlarged population of service users. How will a decrease in staff size affect service to this ever-growing group of service users?

Mr. Sabatini: We are confident that we can provide even better service in 1989 than we are providing today. Although the number of beneficiaries we serve continues to increase, we believe we can continue to improve our service to the public through management, procedural and systems changes.

DISABILITY CLAIMS PROCESSING

Mr. Hoyer: The processing of disability claims is getting slower. From an average of about 70 days in recent years, it was 80.6 days for December 1985, and 88.4 days in January 1986. How is SSA addressing the problem?

Mr. Sabatini: Many of the delays have resulted from more thorough procedures required under the 1984 Disability Benefits Reform Act legislation. These procedures provide for more comprehensive medical documentation. The collection and review of this documentation by the States has caused delays in the process. In addition, there have been difficulties in recruiting sufficient specialized medical consultants. For example, a psychiatrist or psychologist review is required in cases where a mental illness may be involved. In some States, we do not have sufficient psychiatric consultants for these reviews. SSA is actively recruiting additional medical personnel to provide specialized consultant reviews.

Processing time and accuracy remain major priorities in our efforts to provide the best possible service to the public. Now that the new disability rules are in place for delivering fair and accurate disability decisions, we are committed to delivering accurate disability decisions while striving to reduce processing time.

IMPROVEMENTS IN SERVICE

Mr. Hoyer: What kinds of client services will be improved by state-of-the-art computer systems, and what kinds will not? How will the latter be improved?

Mr. Sabatini: Almost all aspects of client service are potentially amenable to improvement through state-of-the-art computer systems. Cost of living increases are now being processed faster, and automated recomputation of benefits for additional earnings are processed faster. The new system will allow a wider variety of automated benefit computations, thus reducing errors while speeding up the process. Also, changes of address and changes of status will be input immediately. The availablity of online data bases and other technological improvements will enable SSA employees to make changes faster, spot problems sooner and speed up processing in ways that will reduce the need for further contact with claimants and beneficiaries, thus freeing up time for service to other claimants.

As you pointed out in your question, state-of-the-art computer systems are not the only way to improve client service. Some of the other things which we are doing include:

--improving the clarity of our notices so more beneficiaries can readily understand them.

--pilot testing the availability of taped messages to give out accurate, general information on a variety of subjects involving SSA on a 24 hour basis.

--more complete and more frequent gathering of earnings information from working beneficiaries to avoid overpayments.

--streamlining aspects of the redetermination process by better profiling of cases; this allows us to target information and documentation requests.

--quality assurance reviews to capture the types of errors that cannot be caught by the computer system.

CONTACTS REGARDING PROPOSED OFFICE CLOSINGS

Mr. Conte: Is it true that regional Social Security administrators have been instructed to "defer contacts with advocacy and community groups and the congressional delegation" on closings?

If this is so, how can we be confident that we will get the straight story on office closings, if you are trying to put a stone wall up so that no one can learn what ideas are being proposed?

Please submit for the record the instructions and memorandum from Herbert R. Doggette, Jr., Deputy Commissioner for Operations dated August 15, 1985, and any and all other written instructions, memorandum or guidance on the subject of office closings.

Let me warn you, Mr. Sabatini, that there will be no quicker way to convince us of the need to interject ourselves in this issue, than trying to hide what you're doing from the public and the Congressional eye.

Mr. Sabatini: Copies of the May 8, 1985 service delivery project methodology and Mr. Doggette's supplemental instructions of August 15, 1985 are attached.

The Regional Commissioners were asked to defer contacts with advocacy and community groups and congressional delegations on proposed closings, but only until officials at the central office in Baltimore could become familiar with the proposal and be able to respond to inquiries directed to the Commissioner's office as a result of such contacts. Contacts with key groups will be made when a review indicates that an office should be closed, but before the final decision is made.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Social Security Administration

15109-41-28119

Refer to:

Memorandum

Date: May 8, 1985

From: Acting Commissioner of Social Security

Subject: Service Delivery Project--INFORMATION

To: See Below

Although there has been some controversy regarding our study of service delivery, I believe that you will agree that this activity reflects a sound management practice that will insure the best delivery of our services in the future. The continuance of our management stewardship fully supports and affirms two of our stated SSA values--effective and efficient administration of the program, and courteous, sensitive, and dignified service to the public.

SSA has had Administrative Directives System (ADS) Guide procedures in place for many years to address the issue of field office location and modification. In our efforts to improve our delivery of service, I believe it is necessary to update these procedures. Thus, we have been developing a methodology for national service area reviews. A work group of five regional representatives met in Baltimore in January and combined the best elements of several previously proposed review methodologies. The resulting methodology has been reviewed by the Regional Commissioners and will form the basis for our ongoing field service delivery evaluations. I want you to know that I am in full support of the service delivery project's objectives and the final methodology. I believe that the document contains a clear set of workable and sufficiently flexible procedures.

While the service delivery project is an SSA-wide endeavor, I have asked the Acting Deputy Commissioner for Management and Assessment to take the oversight lead. The Deputy Commissioner for Operations will have primary responsibility for the conduct of the reviews. Because the project encompasses a wide range of issues, the Acting Deputy Commissioner for Programs and Policy and the Acting Deputy Commissioner for Systems will also play major roles as the project evolves. This activity represents a formally stated position as it relates to our stewardship responsibility to provide cost-effective quality service in the present and anticipated future environment. Together we can continue to demonstrate our commitment to being an exemplary employer by approaching this effort in a reasonable, flexible, and concerned manner. Your leadership and recognition of the value of SSA staffs will enable us to find the solutions to our current challenges.

Martha A. McSteen

Addressees:
Acting Deputy Commissioner, Management and Assessment
Deputy Commissioner, Operations
Acting Deputy Commissioner, Programs and Policy
Acting Deputy Commissioner, Systems
All Regional Commissioners, SSA

Attachment:
Service Delivery Review Methodology

SERVICE DELIVERY REVIEW

METHODOLOGY

Office of Management,
Budget, and Personnel

April 1985

SERVICE DELIVERY REVIEW METHODOLOGY

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INTRODUCTION

SSA principles have remained essentially unchanged over the years as demonstrated by the Acting Commissioner's Bulletin on SSA values. We have always believed that we have a responsibility to provide correct information in a courteous manner to all persons who call or come to our offices.

The concept of "service to the public" is complex because our public includes the "taxpayer" in a broad sense and all beneficiaries and recipients.

SSA has always used certain criteria to determine how to deliver service. These criteria have included population numbers and population characteristics, numbers of Social Security beneficiaries and SSI recipients in an area, accessibility of facilities and other pertinent factors. Between 1936 and 1960, offices were established based on population centers and expected workloads. There was a needed expansion of field facilities in the 1960's and early 1970's to reach out to minority and socioeconomically deprived segments of our society. Through the years we have constantly looked at our service delivery needs. It is obvious that this activity needs to be continued in an organized manner. Current and future lifestyles. technology, population shifts, geographical changes and organizational resources must be considered as we look at the delivery of our services.

The review of facilities has been an ongoing effort, although it has not been uniform SSA-wide. Since January 1981, reduced workloads, shifts in populations, management and other considerations, have resulted in the following changes: (1) the closing of 1 district office; the closing of 17 branch offices and 2 resident stations; the conversion of 7 district offices to branch offices, 26 branch offices to resident stations, 1 branch office to a contact station and 5 resident stations to contact stations; also (2) the opening of 1 district office and 2 branch offices; the conversion of 4 contact stations to resident stations, and 3 resident stations to branch offices. During the period September 1982 to December 1984, 605 contact stations were closed and the frequency of visits reduced in many others. These actions were taken because they enabled us to improve the efficient delivery of our services.

The service delivery project fully supports two important SSA values, to administer the program efficiently and effectively and to provide courteous, sensitive and dignified service to the public. We will continue to look carefully at the nature of the services provided by SSA. The establishment of uniform national guidelines for determining necessary changes and developing plans for the future will ensure our success. Obviously, no single concept of service will suffice for all times and all places, but implementation of an Agency-wide Service Delivery Plan will be a positive step in ensuring that SSA provides cost-effective service while assuring acceptable access to these services.

I. Methodology

In applying a reasonable, systematic study methodology for a comprehensive review of how best to utilize field resources to serve the public, we have always taken into account service needs and the costs for providing these services using a variety of approaches. The methodology for these reviews has as an objective the application of uniform procedures to look at service areas. It allows for regional and local differences and provides for flexibility in terms of organization and management structure. It has as its philosophy that SSA will continue to provide service that is tailored to the needs of the public, including new and innovative approaches to service delivery. SSA will continue the tradition of maintaining "full-service" facilities. The public may contact us at the facility in person, by telephone, or by mail, and that facility will be able to respond fully to the individual's need for service.

The primary thrust of this methodology is to provide a sound management approach to our delivery of services. This review process may result in the creation of new facilities, possible closing of some current offices or consolidations of facilities (due to population shifts or rapid growth areas), and/or other approaches to service delivery. In developing new approaches which differ significantly from the status quo, regions may wish to consider experimental rather than permanent facilities in some cases.

The "best" service delivery approaches will depend on local circumstances and will vary from place to place. These procedures will ensure that the same important factors are considered in evaluating different approaches in all reviews. The review is cyclical in nature and has recurring timeframes, and will include a complete review of all district offices, branch offices, resident stations, teleservice centers and contact stations. After the first series of reviews, all service areas will be reviewed on a cyclical basis--each cycle should not exceed 5 years.

The service delivery project (SDP) methodology comprises several procedures and steps designed to be accomplished by the regions:

- o Identify the service areas to be reviewed.
- o Identify service needs, current and projected, for the geographical area of review. These service needs will be used to project workloads and staffing needs.

- Develop possible options for service delivery. These approaches to placement size and function of facilities will be done initially without regard to existing facilities and personnel. The status quo is always an option to be considered.

- Apply a uniform cost/benefit analysis and decision support procedure to each option under consideration. Select the best options for the geographical area of review and integrate the "best" options into a consistent service delivery plan for the entire review site.

- Submit interim reports and a final comprehensive regional plan on service delivery to central office including an action plan and timetables for implementation.

The first review of all service areas will extend from April 1, 1985 to December 31 1987. After this first 2 1/2 year cycle, all geographical areas will be reviewed every 5 years. All service areas will receive a complete and indepth review based on the procedures in sections III, IV and V.

II. Identify the Service Areas to be Reviewed

A. Identify the First Service Areas to be Reviewed

In assessing the current methods of service delivery in the region. a method for determining which facilities should be reviewed first has been developed. The following screening criteria should be applied to facilities to identify offices to be reviewed initially.

If individual facilities are identified for the initial reviews, the overall geographical area, including all service areas which are geographically or organizationally related, will be reviewed at the same time. For example, if a branch is identified as a facility to be reviewed initially, the entire district will be reviewed at the same time. If one district in a metropolitan area is initially reviewed, the other districts in the same city should generally be reviewed at the same time.

1. Office Size

   - DO/BO's with a staff size of 10 or less should be reviewed to determine the degree of efficient and cost-effective modes of current operation. Adequate service delivery should be determined.

   - DO/BO's with a staff size of 11-16 should be reviewed to determine the degree of efficient and cost-effective modes of current operation. Adequate service delivery should be determined.

   - DO/BO's with a staff size of 16-25 that are located within 25 miles from another full-service facility, should be reviewed to determine the degree of efficient and cost-effective modes of current operation. Adequate service delivery should be determined.

2. Accessibility

   - Metropolitan area (urban/suburban) - generally. claimant travel time to the nearest facility should not exceed 1/2 to 1 hour.

   - Nonmetropolitan area (rural) - mileage and time involved in reaching a full-service facility varies from one geographic area to another. In general, facilities should be located in major trade centers in the demographic centers of their service areas.

   - Regional Commissioners may wish to consider the following additional factors with regard to accessibility criteria:

     - Availability of a teleservice center (TSC) and/or toll-free service

     - Location(s) of other full-service facilities

     - Travel patterns, availability of public transportation, access routes, etc.

3. Other Considerations

   - Management vacancies.

   - Lease expirations or opportunities to terminate at no cost to the government.

   - Space modifications due to the Claims Modernization Project/Field Office Systems Enhancement (CMP/FOSE) or other major changes in facilities.

Application of these screening criteria is optional and will provide a "first cut" identification of facilities requiring additional review and analysis. It is recognized that additional, regionally developed criteria may be appropriate in identifying facilities to be included in this initial review. Other offices which may be impacted by reviews of these facilities should be included in the review. After selection of the offices, the review methodology described in sections III - VI and the geographic factors discussed in II.B. (below) will be applied.

B. Identify the Remaining Service Areas to be Reviewed

The basic area of review can be the entire region, an SSA Area Director's Area, a State, city, or county. Significant geographical and demographic factors should be considered in the designation of boundaries of the review area. Once the review is underway, it may be necessary to change the boundaries. Such a change may require additional data gathering or research.

There are certain geographical situations which may dictate the area of review in a particular region. The automatic establishment of service areas which follow State, county or other political boundaries should not be binding. if by ignoring these boundaries service can be delivered more easily from a management or cost/benefit standpoint. The following are examples of geographical situations that may be considered in determining the area of review:

1. Two large metropolitan centers relatively close together connected by an identifiable suburban corridor - If two such cities lie in different Areas, consideration should be given to extending the area of review to include the two cities and the suburban area between them.

2. A Peninsula or other geographical feature which imposes natural boundaries - In some cases a large peninsula may include more than one Area or more than one State. Combining the entire geographical area for the review should be considered.

3. Conjunction of State boundaries - Where State boundaries are contiguous, consider expanding the area of review beyond State boundaries if appropriate

4. Multiple Areas in large metropolitan areas - Using the entire metropolitan area as the area of review should be considered.

5. State and County boundaries - There are instances in which SSA Areas coincide with States or counties resulting in long, narrow service areas. It may be more cost-effective or efficient to consider service areas which are more square or round in shape so that all areas served are more equally distant from a central facility. Consideration should be given to modifying the area of review to avoid long and narrow service areas.

Regional Commissioners may wish to develop additional screening criteria to assist in the identification of the area of review in this ongoing process. In any case, it is expected that all facilities (DO's/BO's/RS's/CS's/TSC's) in the region will be initially reviewed by December 31, 1987. Subsequent cycles will be 5 years long.

III. Identify Current and Projected Service Needs

The procedures used in determining service needs are based on the assumption that population numbers and population characteristics, including BIFs and RIFs, determine general volumes and types of workloads which, in turn, determine the basic staffing needs of any field facility. This assumption will have to be modified in certain cases (offices with significant workloads stemming from nonresident clients and/or offices with unusually high interviewing workloads).

As described below, demographic data for urban ZIP codes and for rural counties will be obtained. Regions will also acquire maps of the area of review. Such maps are generally available through a variety of State and local agencies (State highway commission, State planning commissions). ZIP code maps of metropolitan areas are often available at no cost. These can be found in telephone directories, and are available in local United States Postal Service city ZIP code directories. ZIP code maps of other areas may be available from local regional planning councils or may be purchased at retail map outlets.

A. Data To Be Considered

The following section describes the specific data that could be obtained and possible sources for obtaining this data.

1. ZIP code or county population data. Source: Current census data; population data by ZIP code (provided by central office).

2. Projections of population changes to 1990. Sources State and local, such as regional planning councils, State planning commissions, historical census data; ZIP code data (provided by central office).

3. BIF's and RIF's by ZIP code or service area. Source: BIF and RIF data by ZIP code (provided by central office).

4. Claims Activity/PE Activity. Source: DOWR

5. Staffing figures. Sources: local offices, or fiscal year DOWR summary.

6. Work units. Source: regional MI sections.

7. Questionnaires or surveys - A questionnaire or survey can be completed by the managers or staff in the area of review This questionnaire can assist in gathering information needed in determining the service needs in a specific location. Such a questionnaire can be developed regionally and can ask for information concerning:

    a. Workload distribution in specific ZIP codes or counties;

    b. workload volumes coming from large institutions, schools (parallel activities);

    c. workloads from clients not residing in the service area;

d. contact stations, their location, frequency of visits, workload volumes, staffing needs, etc.;

e. use of the telephone for conducting Social Security business; and,

f. other issues relating to specific service area characteristics (e.g., foreign language issues, educational level, socio-economic factors, etc.).

B. Using Data

1 After the data is obtained, it may be arrayed in such a way as to facilitate the review and analysis.

2. A statistical procedure that may be used to produce forecasting models for workloads and staff in connection with long-range planning can be found in Appendix A.

IV. Identify Approaches for Service Delivery

Because the service delivery reviews represent a comprehensive look at the way SSA does business in the field, various types of service delivery will be examined to determine which is most desirable in terms of costs and noncost factors. For purposes of these reviews, regions are not limited to traditional approaches in terms of configurations (e.g., DO/BO/RS/CS) or management (e.g., AD/DM/BM). The following procedures are designed to assist in identifying different approaches to delivery of service.

A. General Approaches

1. The geographical area under review may be divided into various categories (urban, suburban and rural).

2. General geographical boundaries should be established for these categories.

3. The next step in this phase is the completion of an outline (Exhibit 1, page 10) which gives the overall characteristics of an approach This outline helps to distinguish one approach from another, and to highlight differences between new approaches and the current situation.

4. The status quo may be the best approach.

B. Alternative Organizational/Management Concepts

Various approaches may be considered as alternative ways to deliver service. However, public contact facilities should always provide the full range of services, tailored to the needs of the service area. Some alternative approaches are discussed below.

1. Consolidation of small offices - In some locations (particularly in some urban areas), SSA opened numbers of small offices. Consideration should be given to consolidation of some of these smaller facilities.

2. Independent facilities - Consideration should be given to establishing fully independent facilities in some locations rather than the current district/branch configurations. This approach may be particularly applicable in rural or small urban settings where service areas are spread out and there is little interrelationship between current districts and branches.

3. City Manager concept - In some urban settings there may be a need for day-to-day coordination and decisionmaking to ensure consistency in the way SSA provides service. A "City Manager" could function somewhat differently depending upon specific options. The following are some possible functions:

    a. Supervises all the individual office managers and TSC manager (if applicable).

    b. Reports to an area director, or could be independent of an area director and answer directly to the regional office.

    c. Determines service policy issues for entire city, and is responsible for the performance of all city offices.

    d. Is involved in the operations of all the city offices.

    e. Is responsible for PI/PR policy and procedures for the entire city, and could have a staff for these functions.

    f. Is responsible for allocation of staff in city offices.

4. Management positions only as needed - Assess the need for management and staff positions in offices.

5. Full-service Teleservice Centers - Consider combining all SSA workloads which are appropriate for telephone interviews in one operation.

6. Returning teleservice to individual offices - Consider returning full teleservice functions to individual offices, particularly in nonurban settings.

7. Processing Offices - Consideration should be given to processing offices and interviewing stations, particularly in dense urban settings.

Many technological innovations or creative public contact ideas may be integrated into approaches, or may form the basis for specific configurations. Technological innovations might include "bank-teller" machines in shopping centers or recorded message machines in field facilities. Creative public contact ideas might include "SSA-Mobiles" (motorized vans for public contact), case-worker concept (similiar to state welfare each CR has specific geographical area of responsibility for all SSA workloads).

Changes in operations due to the current CMP/FOSE effort should be integrated into options as appropriate or may form the basis for specific options.

Regions are not limited to these alternatives, and are not required to consider any or all of them. They are not offered as being "better" than the status quo. They do, however, represent some approaches that may have validity in certain settings. Regions may wish to experiment with one or more of these alternative approaches.

Exhibit 1

GENERAL CONFIGURATION OUTLINE FORMAT

I. Geographic Area Being Considered

A. General description of the approach and the service areas.

1. The facility (field office, teleservice center, experimental unit, etc.).

a. Function: describe the specific workloads, PI/PR, management and other functions of the facility.

b. Staff: describe the general mix of staff and some details of their duties if it varies much from standard field office operations. Also give a general idea of the size of the staff. The detailed staffing mix and size will result from a later analysis of service needs.

Without specifying the grade of the manager or classification of the office, describe proposed duties of the manager if they vary from standard field office operations.

c. Equipment: describe to what extent the facility has SSADARS or sophisticated telephone equipment such as a call distributor. Equipment that impacts on how we offer service (specialized equipment) should be described, including equipment considerations based on implementation of CMP/FOSE.

d. Location: discuss the general location of offices or facilities (e.g., what town, etc.), particularly if their location represents a change from standard field office settings, or if the location aspect is a major feature of the approach.

e. Other Issues: this section should describe any other issues which are important to the configuration being described. This could include workflow and coordination between facilities, workload issues, interviewing issues (face-to-face, telephone), management issues (who controls and manages PI/PR), consistency issues (how is service consistency maintained), etc.

V. Cost/Benefit Analysis Procedures

A. Background

As part of this study, a cost/benefit analysis of the various service delivery options must be conducted to determine the most desirable approach for servicing a geographic area. The procedures provide uniform factors that can be applied to proposed options as well as to the status quo. Additionally, it must be recognized that any decision concerning an option cannot be made solely on the basis of cost, but must also consider various noncost factors that impact on operations and service delivery. Thus, the procedures provide for not only the identification of costs, but the relevant noncost factors that must be considered in the decisionmaking process.

A computerized computational program, SDPCOST, is available for regions to use in computing facilities costs. This program is accessible by regional Management Information Sections.

A full cost/benefit analysis should be performed for each service approach, including the status quo, that is seriously considered for a service area.

B. Process

This section describes the factors, procedures and worksheets that are to be used in analyzing the various options identified during the study.

1. Factors

Groups of uniform factors will be used in analyzing the various facilities and options. These factors include ongoing costs and noncost factors. The cost factors are determined for each facility and summed to determine the cost of a specific option.

a. Ongoing Costs

These factors will be used to determine the yearly operating costs for the facilities and options being analyzed.

1) Personnel (See Worksheet 1 and Worksheet 2)

This includes the salaries for all employees in a facility. The costs are categorized in two groupings: operations employees - all positions up to and including the firstline supervisor, and management positions as reported in Blocks BA and BD of the DOWR (e.g., Managers, Operations Officers, Operations Analysts, etc.). OS's are not included as management overhead because they are more involved with processing workloads than managing facilities.

2) Space (See Worksheet 2)

This includes the costs of space rentals (to include SLUC).

3) Telephone (See Worksheet 2)

These costs are categorized into two groupings: line costs and equipment costs. Line costs should include the monthly service charge for lines from the local telephone company (e.g. $15 per month per business line) as well as the usage charges associated with these lines. Such usage charges should be based upon average use and should include local message units charged by the local telephone company (e.g., $.07 per message unit) as well as long-distance charges for such toll services as Enterprise, "800" service, OUTWATS service and commerical long-distance charges. Equipment charges should include the monthly charge for leased telephone systems or the maintenance charge for SSA owned telephone systems. Costs for maintenance of SSA owned telephone systems may be obtained by reference to the specific contract for that telephone system. All other telephone costs may be obtained by referring to the office's monthly telephone bill or by consulting the local telephone company, the General Services Administration, the State Public Utilities Commission or the regional office's Field Services Section.

4) Other Ongoing Costs (see Worksheet 2)

Regions may include other costs (e.g., contact station travel, etc.). However if "other" costs are included for one approach for a geographic area, they must be included for all approaches in the same geographic area as applicable.

b. Noncost Factors

These are factors which are not readily expressed in terms of costs, but are significant issues to be considered in evaluating each option. The noncost factors are evaluated for each option. These factors are:

1) Public service, levels of service and important management issues.

a) Prompt and Accessible Service

This assesses the effect of an option on waiting times, interview times, client travel time to facilities, accessibility of facilities, etc It can be affected by the demographics of a service area the primary mode of service delivery (e.g.. face-to-face, telephone), etc.

b) Timeliness of Action

This measures the time from the initial contact with the visitor/caller to completion of action by the facility (or facilities). It is primarily a measure of processing time for various workloads and is service as measured primarily by internal Agency processes (SSACCS, tallies, etc.).

c) Quality of Action and Service

This assesses the effect on the quality of the workloads processed as well as the quality of the service given (uniformity, courtesy, helpfulness, etc.).

d) Productivity

This measures productivity as affected by an option. It is impacted by various demographic effects, the primary mode of service delivery (e.g.. face-to-face, telephone), staff size, types of workload processed, workflows and equipment, etc.

e) Operational Concerns

This evaluates the potential impact on office operations, including workflows, operating procedures, staff assignments/flexibility, technological innovations or any other concerns directly related to the operation (e.g., interstate service area requiring knowledge of varying State laws, programs, eligibility requirements, etc.).

2) Reaction to potential change, demographic effects and management issues.

a) Public/Local/Congressional Reaction

This assesses the expected local and congressional reaction to a proposed option.

b) Responsiveness to Demographics

This deals with the responsiveness of an option to local problems, foreign language and/or minority needs, or other special considerations relating to the location or population of a service area.

c) PI/PR, Referral Activities

This measures how an option affects the PI/PR and referral activities in a given geographic area.

d) Union/Employee Reaction

This assesses the potential reaction of unions and employees to an option. This may include the noncost effect of possible employee relocation, redefinition of job responsibilities, position reclassification and other employee issues.

e) Equipment/Space

This assesses the ability to procure equipment and/or space for an option, including constraints (e.g., GSA, budget allocations, lead times, etc.).

3) Other management issues.

a) Staff Allocation

This assesses the impact of an option on field office staffing.

b) Lines of Authority/Span of Control

These deal with the specific supervision of a facility and the span of control of specific managers/supervisors. The evaluation will measure how an option simplifies/complicates direct supervision of the facility or increases/decreases span of control.

c) Interoffice Relationship/Coordination

These measure the effect on workflow coordination and relationships between multiple facilities serving the same area.

d) Classification/Organization

These involve potential changes in office and/or position classification.

2. Evaluation of Factors

If regions use the SDPCOST program, part of Worksheet 1, and all of Worksheet 2 and Worksheet 3 will be automatically completed by the computer program.

a. Cost Factors

1) Costs will be developed for each facility and each option under consideration and for the status quo. Once the costs for a facility have been developed, transfer them to the Facility Cost Worksheet. If the SDPCOST computation program is used, some of these costs will be calculated automatically.

2) Costs for the various facilities in an option will be pulled from the Facility Cost Worksheets and transferred to the Option Cost Worksheet. If the SDPCOST Program is used for all facilities in an option at the same time, this worksheet will be automatically completed by the program.

3) Cost data can be obtained from a variety of sources or regions can contact the central office SDP coordinator for assistance. Possible sources include regional data either in printed form or in the Management Information data base, local office records, regional General Services Administration (GSA) offices, local telephone companies, etc.

4) Certain assumptions of costs can be used (e.g., average positions/job salaries). If anything other than actual costs are used, please explain.

b. Noncost Factors

After the costs have been developed the next step is to evaluate the effect of an option on the noncost factors. It is suggested that the noncost factors be evaluated by those persons having knowledge of the service area in question.

c. When all the costs and noncost factors for options in a geographic area have been developed, summarize the data on Worksheet 4: Cost and Noncost Summary Sheet.

d. After all the options for each geographic area are analyzed using the procedures discussed in the above section, determine which option is "best" for each geographic area. The costs of options should be considered along with noncost factors in reaching this decision. If a more costly option is determined to be the "best" approach, rationale should be supplied to explain the way in which factors might offset the costs. The final decision/recommendation should be indicated on Worksheet 4: Cost and Noncost Summary Sheet.

Worksheet 1: STAFFING MIX/SALARY COSTS

FACILITY______________

	Number of Employees	Salary Costs	Total Costs
DM - Grade___			
ADM - Grade___			
OO/SA			
Other Adm. (specify)__________			
Other Adm. (specify)__________			
	Management Subtotal		
OS			
CR T2			
CR T16			
CR GEN			
FR			
SR			
TSR			
DRT			
DC			
Other (specify)__________			
Other (specify)__________			
Other (specify)__________			
Other (specify)__________			
	Operations Subtotal		
	Total_____		

Note: Complete this worksheet for each facility.

Worksheet 2: FACILITY COSTS WORKSHEET

Facility ______________

Ongoing Costs (Yearly)

A. Total Personnel Costs (Salaries) ______________

B. Space Costs ______________

C. Telephone Equipment ______________

D. Telephone Lines ______________

E. Other ______________

Total ______________

Note: Complete this worksheet for each facility.

Worksheet 3: OPTION COSTS WORKSHEET

Option _______________ (or Status Quo)

Ongoing Costs (Yearly)

A. Total Personnel Costs (Salaries) _______________

B. Space Costs _______________

C. Telephone Equipment _______________

D. Telephone Lines _______________

E. Other _______________

Total _______________(Enter on Worksheet 4)

Note: Summarize from all Facility Costs Worksheets for one geographical area. Complete one Worksheet 3 for each service delivery approach for the geographical area.

Worksheet 4: COST AND NONCOST SUMMARY SHEET

Geographic Area _______________	Status Quo	Option 1	Option 2
1. Ongoing costs	_________	________	________

2. Narrative Evaluation of Noncost Factors (Be specific in evaluation of key elements. Attach additional sheets).

3. Decision/Recommendation

VI. Regional Reports on Service Delivery Reviews

Regional reports on the service delivery reviews will be sent to the Deputy Commissioner, Management and Assessment with a copy to the Deputy Commissioner, Operations. Regional documentation and record copies of service area analyses for all geographical areas, service areas and facilities should be retained in the respective regional office until those geographical areas are reviewed again in the ongoing 5-year cycle.

A. Regional Review Plans

By May 30, 1985, December 31, 1985 and December 31, 1986, submit a schedule of the service area reviews that the region plans to complete by December 31, 1985, December 31, 1986 and December 31, 1987, respectively. This report should include:

1. The number of geographical areas to be reviewed;
2. the number of facilities in the geographical areas to be reviewed; and,
3. the names and locations of the specific geographical areas to be reviewed, including the current offices in those geographical areas.

B. Quarterly Status Report

On a quarterly basis, submit reports of the progress of the reviews. These should be submitted March 31, June 30 and September 30 (the March 31 report - for 1986 and 1987). They should include:

1. The number of reviews completed to date;
2. the number of reviews underway;
3. the geographical areas and offices involved in the reviews: and,
4. any action that the region is considering recommending or effectuating as a result of the completed reviews.

C. End-of-Year Reports

On or before December 31 1985. December 31, 1986 and December 31, 1987 submit a complete first cycle report. This report should include:

1. Results of reviews and rationale for regional decisions:
2. action plans for consolidating, converting, downgrading, closing or otherwise changing facilities, or for experimentation with other service delivery approaches:
3. necessary documentation to support recommendations for immediate opening or upgrading of facilities (see D below) or experimental facilities; and,
4. timetables for implementation.

D. Proposals for Facilities Changes Requiring Central Office Approval

The service delivery reviews are designed for short as well as long-term planning. Not all changes that regions propose in their service delivery plans will be for immediate implementation. Proposals for immediate facilities changes which regions wish to recommend along with their end-of-year reports will be submitted at that time. Regions should complete such proposals in accordance with instructions in the Adminstrative Directives System. Proposals which reflect more long-range plans should be submitted at the time the region wishes to make the change.

E. Office Closings or Downgradings

Regions should continue to forward appropriate information to central office on actual closings or downgradings of facilities (see Associate Commissioner for Management, Budget, and Personnel memorandum, October 11, 1984, "Guidelines for Implementing the Authority to Close or Downgrade a Field Office").

VII. Notification of Congressional Delegations/Other Third Parties

Regions should inform concerned employee organizations, citizens groups, local and State governments and appropriate congressional delegations of any significant changes as a result of the service delivery reviews. Documentation of such contacts should be retained along with regional records of the reviews.

Determining Staff and Workloads

I. Working With The Data

Population numbers, numbers of BIF's and RIF's, etc. can be used to assist in estimating staffing needs or expected workloads for facilities. The following discusses ways to group and use data to assist in assessing service area needs.

A. Grouping the data - the data can be arrayed for:

1. Each metropolitan area;
2. rural counties (may include suburban counties); and,
3. current office service areas.

B. The following is a suggested format for the data variables.

Population and/or BIF's and RIF's/Work Units/Processing Staff

It includes the minimum of necessary variables. Regions may include more variables in their statistical calculations, depending on availability of data (e.g., population or age breakouts, poverty levels, retirement versus disability beneficiaries, etc.).

C. Data for Specific Groupings

1. DO/BO Grouping - This data can be arrayed on a data entry sheet or other medium with little or no changing of the raw data. If there is a teleservice center (TSC) in the area of review, it may be necessary to prorate the TSC work units and staff into the data for individual offices to show that the TSC workloads and resulting staffing needs and those of the offices stem from the same population. Grouping data by DO/BO may be sufficient for purposes of the service area reviews. However, if data is grouped only by DO/BO, it may be necessary to deal with the rural data separately from the urban data because of the differences in service area characteristics.

   An optional approach would be to group data by ZIP code for cities and by county for rural or suburban areas. This means of displaying data would give a detailed view of the characteristics of each ZIP/county in the area of review and is discussed below.

2. Rural/Suburan County Grouping

   a. A decision must be made as to which counties to include in this grouping. Certain suburban counties may need to be excluded if it is felt they are more closely related to urban populations. Regions may wish to array more than one group of counties for workload and staff forecasting for the area of review.

   b. General population, and BIF plus RIF data, can be arrayed without modification

   c. For workload and processing staff, special procedures will have to be applied to the DO/BO data to derive county data. This is discussed below.

      1) Derived work units - work unit figures are by office. To determine work units by county, overall work unit figures for an office can be prorated to each county by the percent of that county population to the overall population in an office's service area. The following example illustrates this procedure.

Example: Counties A, B and C are in one DO's service area. The general population and BIF/RIF population of these three counties are shown below.

	General Population	BIF's Plus RIF's
County A	60,430	8,170
County B	16,695	4,105
County C	25,508	3,783
	102,633	16,058

	Percent Population	Percent BIF's + RIF's	Mean Percent
County A	58.9	50.8	54.8 %
County B	16.3	25.6	21.0 %
County C	24.8	23.6	24.2 %
	100.0	100.0	100.0 %

The total work units for the office were 19,110. They can be allocated as follows.

County A - 54.8 % of 19,110 = 10,472 (derived work units)
County B - 21.0 % of 19,110 = 4,013 (derived work units)
County C - 24.2 % of 19,110 = 4,625 (derived work units)

If local knowledge from questionnaires, surveys or other information can estimate more accurately the distribution of workloads among ZIP codes or counties, these should be used to either modify the prorations or to substitute for them. This modification will be necessary to account for certain situations (e.g., workloads from persons not living in the service area, etc.). In certain places, BIF's and RIF's are a much better predictor of expected workloads than population numbers. This is particularly true in new, fast growing metropolitan areas where large population numbers might not include poor, disabled or older populations. In these cases regions may wish to exclude general population from the procedures in a. above.

2) Derived Staff - the same proportions used to distribute work units should be applied to the processing staff numbers for an office to derive staff for each suburban or rural county.

3) If regions have access to more sophisticated data or regional MI statistical packages, other approaches may be used to determine service needs by counties.

4) After arraying data by counties, and deriving a work unit and staff figure for each county, the data can be grouped directly from the data sheet to arrive at general work unit and staff numbers for combinations of counties in facilities' service areas.

3. City ZIP Code Groupings - The service areas of urban and some suburban offices are generally defined in terms of ZIP codes as opposed to counties. A useful grouping for such offices is in terms of ZIP codes.

   a. General population and BIF/RIF data can be arrayed without modification.

   b. For workload and processing staff, use the same procedures outlined above for counties, substituting ZIP code figures for county figures.

   c. If regions have access to more sophisticated data or regional MI statistical packages, other approaches may be used to determine service needs by ZIP codes.

   d. After arraying data by ZIP codes. and deriving a work unit and staff figure by ZIP code, the data can be grouped to arrive at general work unit and staff numbers for combinations of ZIP codes in facilities' service areas.

II. Statistical Correlation/Regression Analyses Using Arrayed Data

A correlation/regression analysis indicates how series of numbers interrelate and to what extent they may be interdependent. For example, it is assumed that population generates workloads. A correlation/regression analysis can disclose what volumes of workloads can be expected from a certain population, and how well the numerical relationships can be counted on as an accurate forecast.

This statistical procedure will permit determinations of population. workload volumes and staffing needs for various proposed service areas which result from considering different approaches to service delivery.

For example, assume that Office A serves six city ZIP codes and Office B serves seven city ZIP codes. If by an alternative service option the 13 ZIP codes were distributed among 4 offices (rather than the current 2), what would be the workload volumes and required staff for each of the 4 offices? The results of the correlation/regression analysis will assist in answering this question. Once the numerical relationships are established, the total population and/or BIF's + RIF's for each grouping of ZIP codes can be introduced into a formula and the expected general workload and general staff will result.

The following are procedures for establishing the data base and performing the correlation/regression analyses.

A. Regions can set up the required data in their MI sections.

B. After the data base has been established, correlation/regression analyses can be run either in the regional MI section or in central office. If the statistical procedures are run centrally, the printouts will be sent to the regional office for further analysis.

C. The correlation/regression analyses will produce a variety of statistical data, among which are the coefficient of correlation. the slope and the y-intercept.

1. The Coefficient of Correlation - This number is an indicator of the extent to which sets of numbers are interdependent, that is. how increases (or decreases) in one set of numbers are related to increases (or decreases) in another set of numbers. The sets of numbers in this case are the variables which are introduced into the correlation/regression analyses, and are basically population, BIF's and RIF's, work units and required processing staff. For example, the coefficient of correlation will tell us how increases in population (or subsets of population such as BIF's and RIF's) result in related increases in work units for the particular grouping for which data is input.

The coefficient of correlation is expressed in decimals approaching one (e g., +.97, +.65, etc.) or moving away from one (e.g., -.97, -.77, etc.). The stronger the correlation between sets of numbers, the closer the decimal will approach one (a 1.00 represents a perfect correlation). A negative number indicates that one set of numbers increases as the other decreases. A positive number indicates that the numbers move in the same direction.

The coefficient of correlation from each grouping of variables will be used to determine which groupings produce the strongest correlations, and which groupings should be used to assist in forecasting workloads and staff requirements.

Example: Assume that all the ZIP codes for a city represent one grouping of variables. Correlation/regression analyses produced the following coefficients of correlation.

Variables used in the correlation/ regression analysis	Coefficient of Correlation
Population to Work Units	.81
Population + BIF's + RIF's to Work Units	.84
BIF's + RIF's to Work Units	.90

The grouping of selected variables which yields the best correlation in this example is "BIFs + RIFs to Work Units."

2. The Slope and the Y-Intercept - These numbers will be produced by the output from each correlation/regression analysis. They will be used as discussed below.

D. Forecasting Using the Slope and Y-Intercept Numbers - In the above example, the specific combination of variables, "BIF's + RIF's to Work Units," produced the best "model." That is, to forecast work units for this grouping, (all ZIP codes for a city), the best forecaster of the three is "BIF's + RIF's."

The slope and y-intercept, along with the independent variable (which in our example case is the number of BIF's + RIF's) are used in the following standard formula, y = mx + b, where m is the slope number. b is the y-intercept number and x is the sum of BIF's + RIF's.

Example: For the variable combination "BIF's + RIF's to Work Units," assume that the slope is 1406.71334, and the y-intercept is -156.76213. To compute work units for any combination of ZIP codes from the group, the BIF's + RIF's for those ZIP's would be introduced into the formula to forecast expected work units:

work units = 1406.71334 x (BIF's + RIF's) + (-156.76213)

Note that the slope and y-intercept numbers will vary with each specific correlation/regression analysis. The above numbers are used as an example only.

E. The results of these procedures will give very general ideas of expected workloads and required processing staff. Local information and knowledge (from sources such as the managers' questionnaire) should be used to refine the results of the above procedures. Such modification is essential to account for such factors as nonresident workloads, high interviewing levels, etc.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Social Security Administration

15213-14-13996

Refer to: SDA-1

Memorandum

Date: AUG 1 5 1985

From: Deputy Commissioner
for Operations

Subject: Service Delivery Reviews--ACTION

To: All Regional Commissioners

The Acting Commissioner's memorandum of May 8, 1985, officially announced the new service delivery review methodology and gave Operations the responsibility for implementing the review process. Much has happened since that announcement:

- There has been a tremendous surge of Congressional activity, including introduction of legislation to require advance notification of proposed facility closings, House and Senate Resolutions concerning office closings and staffing, proposed budget amendments relating to the issue, and a large number of inquiries about specific offices and service delivery in general. We sent you some of this background earlier.
- The Acting Commissioner and I met with Representative Jim Jones of the House Ways and Means Committee and other Congressional leaders on SSA's approach to service delivery assessment and changes.
- The Government Accounting Office (GAO) has begun field contacts in a study of service delivery and our approach to the reviews.

Because of this activity and the concerns associated with it, the Acting Commissioner has agreed that we should supplement the guidelines sent with the May 8 memorandum. That is the purpose of this memorandum.

General

Our intent is to proceed with the service delivery reviews with the target of completing the first round by December 31, 1987. The numbers and locations to be reviewed each year are left to your discretion.

Much of the current concern revolves about the suspicion that there is a target for reducing the number of offices tied to the projected 17,006 staff reduction by 1990. This is natural, given the coincidental timing of the new service delivery review methodology and the announcement of the projected

FTE reduction. These concerns are the backdrop for both our meeting with Congressman Jones and the GAO study. Mr. Jones and his colleagues are concerned that SSA not be driven by an intent to achieve savings through office closings at the expense of service to the public. The GAO study is aimed at developing a perspective for Congress which will include:

- o How our field offices are currently configured.
- o How the regions are implementing the service delivery reviews.
- o How much is saved by closing an office (based on past closings).
- o What factors are considered, and how, in the decision process concerning office closings and conversions.

As this is written, GAO plans to visit three regions - Atlanta, Dallas, and Kansas City. We will let you know if GAO plans any other regional involvement.

Reporting Requirements

We intend to review status with you at the times of your SES progress reviews and final performance discussions in lieu of requiring the schedules and status reports listed in the May 8, 1985 methodology paper. These reviews will begin with the final performance discussion for 1985 in September; you should be prepared to discuss the number of reviews completed, underway, and planned for the interval between progress/performance reviews, as well as any comments or information related to the reviews that you deem appropriate. We will give the Acting Deputy for Management and Assessment (DCMA) progress reports based on your input and an end-of-the-year summary. Should you receive requests for information from GAO, they should be handled in accordance with procedures prescribed by the Office of Assessment. Similar requests from Members of Congress should be complied with and FLSS should be notified.

Documentation of "No Change" Decisions

When it becomes obvious that a facility or grouping of facilities under review should not undergo any change, the documentation collected up to that point will suffice. Since the purpose of the reviews is not to defend what is already in place, but to explore what our facility network should look like into the future, only the amount of information needed to justify changes for the future need be developed.

Your best judgment should govern the degree of documentation, but some special circumstances, primarily involving metropolitan areas, should be kept in mind:

- Where several offices of similar size and service area characteristics are reviewed and some will remain open and one or more should close, documentation should be sufficient to answer questions about why office "A" will close and office "B" will remain open.

- The above situation is especially critical when different Congressional districts are involved.

Experience shows that, in such cases, comparative questions can be expected. Your documentation should be able to answer those questions.

Congressional Notification

Because of the sensitivity surrounding the service delivery reviews, the headquarters Executive Staff needs to be aware "up front" of regional decisions to close or convert field offices. Our recent experience has been that large numbers of Congressional inquiries and reactions are directed to Baltimore, regardless of contacts made with Congressional offices in the regions. Many of those inquiries and reactions have preceded word from the regions about the proposed closings or conversions.

We have considered ways to remedy this problem without interfering with the decision-making process and the delegations of authority already in place. The scenario at tab A, we believe, best achieves that purpose. This approach, which we ask you to implement upon receipt of this memorandum, calls for:

- Deferral of regional and local contacts with advocacy and community groups and the Congressional delegation pending headquarters familiarization with service delivery review documentation of planned closings, conversions. (Local group contacts should be deferred, since they may trigger Congressional activity prior to headquarters familiarization with the service delivery reviews. This does not imply that no such contacts should be made or that they may not be important to final decisions. We merely are trying to avoid the problem described earlier by deferring those contacts pending a review of facts gathered in the review. Note that the scenario calls for group contacts before or simultaneously with Congressional contacts in the region.)

- Sending documentation of the reviews, including the appropriate summary (at tab B or C), to headquarters when closings or conversions are proposed. (Documentation of "no change" decisions need not be submitted.)

  - The summaries will be the primary vehicle for familiarization; should experience indicate that full reports are unnecessary, we may limit this request to the summaries.

  - The headquarters review should be routine, but if the documentation is unclear or does not provide answers for actual or anticipated Congressional inquiries, we may ask for elaboration.

  - Documentation on the summaries should highlight the potential for public or Congressional questions about withdrawal of service to minority and other disadvantaged populations. In a few recent cases we have been hard pressed to rationalize closing facilities that were originally justified by the need for "neighborhood" service. This issue should be covered in the Service Area Characteristics and Service Impacts sections.

  - Similarly, the summaries should indicate if the proposed adjustments involve more than one Congressional district - a closing in one district with a shift of servicing office to another, for example. As mentioned above, we would like to have documentation about offices with similar characteristics located in the same area when some will close and others will remain open, especially when different Congressional districts are involved.

- Congressional notification at the headquarters level.

  - The Acting Commissioner has designated me as the coordinator of headquarters contacts. I intend to make these notification contacts myself with appropriate Office of Legislative and Regulatory Policy (OLRP), Office of Governmental Affairs (OGA), and Office of Management, Budget, and Personnel (OMBP) involvement. I expect the Acting Commissioner herself will take part in some of these contacts.

  - To the extent possible, these headquarters contacts will merely inform the Member that the review indicates a change should be made and that regional followup contacts will explain the details. This approach acknowledges your superior knowledge of specific situations, provides the opportunity for community contacts before final announcement of the decision, and yet opens the door for informed communication at this level at the Member's option.

- Initial Congressional notification to the Member him or herself, rather than to staff. This was a suggestion made by Representative Jones in our July 26 meeting with him, and it applies to either headquarters or regional initial contacts. Should personal or telephone contact be impossible, a letter from the RC would be appropriate.

Office conversions (DO to BO, BO to RS) deserve special mention. Despite the fact that many of these changes are purely organizational and transparent in terms of service impact, there is considerable Congressional concern about them because of their perceived relationship to budget cuts. For this reason, conversions are included in the notification procedure, at least for the time being. Eventually we all need to gear our external notification policy and communications to make the distinction between full-time and part-time offices, and not the classification title of offices - district, branch, etc.

The Service Delivery Review Summary for office conversions (at Tab C) is designed to capture information about two situations - conversion with and without service area realignment. The former poses the greatest potential for public concern and reaction, thus our request for "before and after" information about the office to be converted and data about the populations to be "realigned" to other servicing offices. Discussion of potential racial issues and multiple Congressional district involvement should be included as in closing cases.

Handling General Inquiries

Given Operations' involvement in the Congressional notification process discussed above and at tab A, we have outlined a scenario for handling related Congressional inquiries. That scenario (at tab D) creates a coordinating role for FLSS and specifies distribution of copies of regional and headquarters responses to those who "need to know." Please follow these guidelines upon receipt of this memorandum.

We welcome your comments on these guidelines. Questions may be directed to Roger Paton (934-2180) or Steve Aprile (934-2188) in FLSS.

Herbert R. Doggette, Jr.

Attachments
Tab A - Scenario, Notification of Office Closings, Conversions
Tab B - Service Delivery Review Summary (Office Closings)
Tab C - Service Delivery Review Summary (Office Conversions)
Tab D - Scenario, Handling Congressional Inquiries

cc:
Mrs. Martha A. McSteen
Mr. Louis Enoff
Mr. Nelson Sabatini
Mr. Arthur Simermeyer

NEW SERVICE DELIVERY REVIEW PROCESS
(NOTIFICATION OF OFFICE CLOSINGS, CONVERSIONS)

REGIONS		HEADQUARTERS
RC's complete service delivery reviews and identify proposed closings, conversions. No contacts made with local government, groups, or Congressional delegation at this point. RC's send documentation, including executive summary (formats at tabs B and C) to FLSS.	→	FLSS does staff review for DCO. o Determines if there are any necessary alerts in documentation. o Associates input from region, OLRP and OGA concerning prior Congressional inquiries or involvement, if any. o Recommends any special handling based on review.
		↓
		DCO determines appropriate level of Congressional contact. o Regional level - no special sensitivity indicated or prior Executive staff involvement. o Headquarters level - Acting Commissioner or DCO makes contact in sensitive cases (involving prior contacts or special requests). DCO ensures appropriate OLRP, OMBP, and OGA involvement.
(RC provides additional input as necessary)	↔	(DCO could request more input from RC prior to determining followthrough action, before or after Congressional contact at headquarters level.)
		↓
		DCO (through FLSS) coordinates with RC on followthrough action and Congressional contacts at regional level. (Telephone contact, followed by written confirmation, as appropriate.)

REGIONS

RC arranges followthrough per advice from DCO. ←

- o Arranges followup or initial Congressional contact - preferably within 48 hours of notice from DCO in the case of followup contacts.
- o Arranges contacts with local government, advocacy, and other groups. This could be done simultaneously with Congressional contacts that follow up on headquarters Congressional notification.
- o Considers alternatives to closing or conversion and staffs them out. ↔

↓

RC ports back to DCO through FLSS

- o By telephone after Congressional contacts that follow initial headquarters Congressional contacts.
- o As appropriate (RC judgment), after "routine" contacts. ↔
- o About alternative plans developed by regional staff.

↓

RC proceeds with closing, conversion or any alternative action agreed upon. Confirms completion of action, notifies DCO (through FLSS) of any followup public reaction.

HEADQUARTERS

- o Sends report of headquarters contact, if any, to RC with any advice on followthrough.
- o Notifies RC if regional contact is to be first Congressional contact.
- o Requests report of local Congressional contact and reaction.

DCO could suggest action be stopped or compromise action be considered.

DCO shares information as appropriate with other Deputies, Acting Commissioner, OLRP, OGA, OMBP, etc. Confirms agreement on alternative actions as necessary and informs RC of any followup Congressional contact at headquarters level.

SERVICE DELIVERY REVIEW SUMMARY
(Office Closing)

Office (Name and Class) :

Proposed Closing Date :

Parent Office (if applicable):

New Servicing Office(s):

Date Opened:

Service Area Characteristics

- o Service Area Definition (ZIP's, counties, etc.)
- o Demographics
  - Total Population :
  - Percentage Aged :
  - Minority, Ethnic Mix:
  - Income Profile :
  - Literacy :
  - Population Trends :
- o Workloads
  - BIF/RIF :
  - Claims Receipts/Wk :
    - T2 :
    - T16 :
  - PE (Est. Actions/Wk):
  - Trends Since 1980 :
    - T2 claims :
    - T16 Claims :
    - PE :
  - Current Teleclaims %:

Comments (as appropriate)

Service Impacts

- Accessibility for Service Area Population
  - Average and maximum distances to current office location :
  - Average and maximum distances to proposed servicing office(s) :
  - Average and maximum distances to other alternative office(s) :
  - Assessment of public transportation to current location :
  - Percentage of visitors using public transportation now :
  - Assessment of public transportation to proposed servicing office(s):
  - Assessment of public transportation to other alternative office(s) :
- Service adjustments planned, if any, (contact station, toll-free telephone service, etc.)
- Other

Office Closing

Staff Impacts

- o Current staffing (number):
- o Current staffing (mix) :
- o No. to be reassigned in commuting area:
- o No. of voluntary relocations out of commuting area :
- o No. of forced relocations out of commuting area :
- o No. of anticipated staff losses :
- o Planned placement of management and support staff :

Space Considerations

- o Lease termination date for office to be closed:
- o Quality of current space:
- o Can new servicing office(s) satisfactorily accommodate transferred staff without expansion, relocation?
- o List critical deadlines, if any, (for GSA notification, etc.):

Savings Potential

- o Salaries: ______
- o Space 1/: ______ Will SSA be responsible for continuing lease payments after closing?
- o Other 2/: ______
- o Total : ______

1/ Show estimated net based on lease termination and costs for new servicing office(s), if any.

/ Specify:

Office Closing

Describe anticipated or actual public/group reaction to closing:

Congressional Delegation (Show names and committee assignments, as well as district relationships to service areas involved)

Attach copies of any inquiries received and responses sent to date.

SERVICE DELIVERY REVIEW SUMMARY
(Office Conversion)

Office (Name and Class)
- o Current :
- o Proposed:

Date Opened :

Parent Office
- o Current :
- o Proposed:

Proposed Conversion Date:

Service Area Characteristics

o Service Area Definition

o Workloads	Current	Proposed
- BIF/RIF :		
- Claims Receipts/Wk :		
-- T2 :		
-- T16 :		
- PE (Est. Actions/Wk:		

o Population Trend in Service Area

o Workload Trends Since 1980
- T2 Claims :
- T16 Claims:
- PE :

Demographics

	Current	Proposed	Realigned To *	Realigned To *
o Total Population :				
o Percent Aged :				
o Minority, Ethnic Mix:				
o Income Profile :				
Literacy :				

* Name office(s)

Service Impacts

	Current	Proposed
o Staff		
- Number		
- Mix		

o Accessibility for Service Area Population

If service area realignment is involved, complete following for population to be assigned new servicing office(s):

- Average and maximum distance to current office location :
- Average and maximum distances to proposed servicing office(s) :
- Average and maximum distances to other alternative office(s) :
- Assessment of public transportation to current location :
- Percentage of visitors using public transportation now :
- Assessment of public transportation to proposed servicing office(s):
- Assessment of public transportation to other alternative office(s) :

Service Impacts - Accessibility (Cont'd)

If this office is to be relocated, complete following for its proposed service area population:

- Average and maximum distances to current office location :
- Average and maximum distances to proposed office location :
- Average and maximum distances to alternative office(s) :
- Assessment of public transportation to current location :
- Percentage of visitors using public transportation now :
- Assessment of public transportation to proposed location :
- Assessment of public transportation to other alternative office(s):

o Service adjustments planned, if any (contact station, toll-free telephone service, etc.):

o Other

Staff Impacts

- o No. to be reassigned in commuting area :
- o No. of voluntary relocations out of commuting area:
- o No. of forced relocations out of commuting area :
- o No. of anticipated staff losses :
- o Planned placement of management and support staff :

Space Considerations

- o Lease termination date for office to be converted :
- o If no relocation is planned, what is projected space utilization rate?
- o Quality of current space :
- o Can new servicing office(s) satisfactorily accommodate transferred staff without expansion, relocation?
- o List critical deadlines, if any (for GSA notification, etc.):

Savings Potential

- o Salaries: _______
- o Space 1/: _______ Will SSA be responsible for continuing lease payments after relocation?
- o Other 2/: _______
- o Total : _______

1/ Show estimated net based on lease termination and costs for new servicing office(s), if any.

2/ Specify:

Office Conversion

Describe anticipated or actual public/group reaction to conversion:

Congressional Delegation (Show names and committee assignments, as well as district relationships to service areas involved)

Attach copies of any inquiries received and responses sent to date.

NEW SERVICE DELIVERY REVIEW PROCESS
(Handling Congressional Inquiries)

Inquiries Received in Regions

- Before service delivery review is completed:
  - RC responds, explaining status and
  - Sends copy of response to FLSS, OLRP, Congressional Relations Staff (CRS), OPI - FYI
  - RC includes copies of inquiry and responses in any subsequent package on closing or conversion sent to headquarters.
- Office closing or conversion pending headquarters review:
  - RC telefaxes copy of inquiry to FLSS and
  - Calls FLSS for status of review; sends interim response, if appropriate
  - FLSS distributes copies to OLRP, CRS, OPI, DCO (associated with staff review) - FYI
  - DCO coordinates Congressional contacts on closing or conversion
  - RC responds to inquiry, as appropriate, after hearing from DCO; sends copy to FLSS, OLRP, CRS, OPI, DCO, DCPP, DCMA.
- After notifications of closings or conversions given to Congressional delegation:
  - RC responds to inquiry and
  - Telefaxes copies of inquiry and response to FLSS
  - FLSS distributes copies to OLRP, CRS, OPI, DCO, DCPP, DCMA - FYI.

Inquiries Received in Headquarters

- General:
  - OPI controls and
  - Sends FYI copies to OLRP and CRS
  - OPI coordinates with FLSS for fact sheet or draft response
  - OPI prepares final response, cc's RC (as appropriate), DCO, DCPP, DCMA, OLRP, CRS, FLSS.

- No pending closing or conversion:
  - FLSS requests status from RC
  - FLSS informs OPI
  - OPI prepares response.
- Closing or conversion pending headquarters review:
  - FLSS prepares fact sheet or draft response based on DCO action on regional proposal
  - OPI prepares final response.
- After notifications of closings or conversions given to Congressional delegation:
  - FLSS either prepares fact sheet/draft response or requests same from region
  - OPI prepares final response.

ENERGY COSTS

Mr. Conte: The questions with regard to low income energy assistance, I suppose, relate to what the decline in oil prices means for heating costs, and what the release of the Exxon funds means as to the need for appropriations.

First, let me say that I believe the Gramm-Rudman-Hollings reductions in low income energy assistance were taken in the right way. As we discussed last year, a number of States had their allocations reduced in FY 1986, due to the change in the formula that was pushed through at the eleventh hour in 1985, on which I was just about the only hold-out. These States were then protected by a hold harmless. Because of that hold harmless, other States, which received increases, were then reduced by Gramm-Rudman-Hollings, the end result being that each State received a reduction, whether by formula or by Gramm-Rudman, and a rough sort of justice prevailed.

Now with regard to the oil price decline, does that automatically translate into a reduction in heating costs, even for houses heated by electricity? Haven't electricity costs, for instance, continued to rise?

Ms. Ross: The rapid decline in the price of oil will have a downward influence on the prices of other fuels. However, the price of natural gas (the primary heating fuel nationally) is not expected to decrease as much as the price of heating oil. The most recent forecasts we have from the Department of Energy indicate that the price of heating oil will decrease by 7 to 19 percent from the fourth quarter of 1985 to the fourth quarter of 1986. During the same period DOE expects to see natural gas prices decline by 0.3 to 5.4 percent and electricity prices increase by 2.4 to 3.9 percent.

ENERGY PROGRAM STATISTICS

Mr. Conte: Furthermore, let me just ask the questions I asked the Secretary for the record. What percentage of persons currently estimated to be eligible for energy assistance are currently being served by the program at its current appropriation level?

Ms. Ross: We estimate that 23.4 million households were eligible in FY 1984 under the income standards specified in section 2605(b)(2)(B) of the LIHEAP statute, based on the March 1984 Current Population Survey. Preliminary estimates suggest that 17.6 million households were eligible in FY 1984 under the more restrictive eligibility standards adopted by many States. (We should have estimates for FY 1985 in late April 1986.)

In January 1986, States estimated that they would provide LIHEAP assistance with heating costs (including crisis assistance) to about 7.3 million households in FY 1986. This represents about 31 percent of all households eligible for the program under the statutory maximum criteria. It represents about 41 percent of households eligible under the States' eligibility standards.

Mr. Conte: What percent of the average heating cost of low income recipients of the program is currently covered by the program? And what percent of their energy costs?

Ms. Ross: We estimate that the average LIHEAP heating benefit (including crisis assistance) will offset about 45 percent of the estimated average heating costs for recipient households in FY 1986. Nationally, heating costs represent about 40 percent of total residential energy costs, so the average LIHEAP benefit for heating should offset about 18 percent of the estimated average total residential energy costs for recipient households in FY 1986.

Mr. Conte: What are your figures on how many people had their utilities shut off last year for failure to be able to meet their bills?

Ms. Ross: Preliminary estimates from the March 1984 Current Population Survey indicate that 1.4 million households were without heat for one or more days during the winter of 1983-1984 because of inability to pay. Preliminary estimates from the 1982-1983 Residential Energy Consumption Survey indicate that 1.3 million households were without heat for one or more days during the winter of 1981-1982 because of inability to pay. In both winters, about 80 percent of these shutoff households were low income. These are the most recent estimates currently available to us.

EXXON SETTLEMENT FUNDS

Mr. Conte: Will the States use their Exxon money for low income energy?

Ms. Ross: We do not know how much of their Exxon settlement funds States will use for LIHEAP. We know that, of the $200 million in oil overcharge funds distributed to States under the "Warner Amendment", States used about $43 million, or a little over 20 percent, for LIHEAP. Exxon funds may be used for the same purposes as the Warner Amendment funds. However, we don't know whether the use States made of the $200 million in Warner Amendment funds will prove to be a useful guide as to how States will use the almost $2.1 billion in Exxon funds.

Mr. Conte: Is there any notion as to whether this money will still be around come next winter?

Ms. Ross. The court did not specify any time limit on the use of Exxon funds. Once Exxon funds are disbursed by a State's governor to a designated program, the funds should be spent under any applicable time limits for that program. We know that after 3 years, most, but not all of the funds made available under the Warner Amendment have been spent.

Mr. Conte: Is it your information that Senator Domenici is considering in the budget resolution, reducing the appropriation for low income energy by $1.2 billion to take account of the Exxon money?

Ms. Ross: It is our understanding that Senator Domenici proposed reducing States' LIHEAP allotments $1 for every $2 the State received from the Exxon settlement. However, it is our understanding that the resolution adopted by the Senate Budget Committee does not deal with Exxon funds. Rather, the resolution reduces LIHEAP by $900 million in FY 1987, $700 million in FY 1988, and $500 million in FY 1989. It is also our understanding that the resolution contains a provision that would restore LIHEAP funding to the Congressional Budget Office current services level ($1.919 billion) if the Congress directs that all future oil overcharge collections go to the Federal treasury.

ENERGY PROGRAM PROPOSAL FOR FY 1987

Mr. Conte: Describe your legislative proposal for low income energy, and your budget request for FY 1987? Why is $2.1 billion a good figure?

Ms. Ross: Our legislative proposal would:

o Reauthorize the program for 3 years, i.e., through FY 1989, at a funding level of $2.1 billion.

o Remove the current 15 percent limitation on the amount of LIHEAP funds a State may use for weatherization.

o Require that States coordinate energy assistance programs by taking assistance with home energy costs provided by other public (not private) programs into account when setting LIHEAP benefits levels, in the same manner that States now are required to consider a household's income and energy costs.

o Improve the section on State applications and plans by eliminating overlapping and duplicative provisions.

o Eliminate the requirement that States provide data on energy usage and costs as part of their annual applications.

o Modify the current statutory language to conform LIHEAP provisions to the nondiscrimination provisions in the other block grants administered by HHS and to remove any ambiguity about the relationship of the LIHEAP provisions to title IX of the Education Amendments of 1982.

The President is requesting $2.1 billion for this program in FY 1987. This request is in keeping with the Administration's commitment to continue to provide essential low income home energy assistance funding while meeting the Gramm-Rudman-Hollings deficit reduction targets. This amount will allow States to continue to provide substantial levels of assistance with home energy costs to the over 7 million households States will serve this fiscal year.

SOCIAL SECURITY COURT

Mr. Conte: There has been some publicity lately to the idea of establishing a new Social Security court to handle appeals that have been deluging the Federal courts. Apparently, officials in the Departments of HHS and Justice have drafted such a proposal. What would you have in mind by this?

Mr. Sabatini: We favor the concept of a Social Security Court, a specialized court which would be the first level of judicial review of Social Security cases.

The major advantages of a Social Security Court are that it should:

- increase the uniformity of court decisions;
- improve the judicial review process since Court judges should become expert in Social Security and SSI cases; and
- improve service to claimants with judicial appeals since the specialized Court could adopt procedures to promote efficient adjudication specifically tailored to Social Security and SSI cases.

WELFARE STATISTICS

Mr. Conte: What percentage of children in this country live in households receiving welfare?

Ms. Ross: Data from the Census Bureau's Survey of Income and Program Participation for the quarter ending December 31, 1984, indicate that 13.6 percent of all children resided in households that received cash public assistance during that period.

Mr. Conte: I saw an article in January that the research office at Social Security reported that it cost Federal, State and local governments $641.7 billion to run all social welfare programs in 1983, 7.7 percent higher than in 1982. For the record, why don't you put in what that amount consists of, and give us some historical comparisons with previous years, going back over time.

Mr. Sabatini: The following table provides the details and historical comparisons on social welfare programs which you requested.

Social Welfare Expenditures Under Public Programs, Selected Fiscal Years 1950-83

(Amounts in millions)

Fiscal Year	Total 1/	Social insurance	Public aid	Health and medical care	Veterans' programs	Education	Housing	Other social welfare 2/
1950	$23,508	$4,947	$2,496	$2,064	$6,866	$6,674	$15	$448
1955	32,640	9,835	3,003	3,103	4,834	11,157	89	619
1960	52,293	19,307	4,101	4,464	5,479	17,626	177	1,139
1965	77,175	28,123	6,283	6,246	6,031	28,108	318	2,066
1970	145,856	54,691	16,488	9,907	9,078	50,845	701	4,145
1975	290,084	123,013	41,308	17,788	17,019	80,834	3,172	6,974
1976	331,955	145,703	48,693	19,029	18,958	87,730	3,371	8,472
1977	360,602	160,883	53,266	20,129	19,015	93,878	4,358	9,071
1978	394,377	175,090	59,394	22,844	19,744	101,518	5,225	10,563
1979	430,280	194,288	64,662	24,899	20,602	109,262	5,493	11,076
1980	493,187	229,754	71,799	28,310	21,466	121,050	7,210	13,599
1981	550,841	267,395	82,424	30,720	23,441	128,145	6,734	11,983
1982	595,869	303,033	80,852	33,793	24,708	133,874	7,954	11,654
1983 3/	641,709	330,551	85,830	36,918	25,826	141,506	9,090	11,990

1/ Represents expenditures under public laws and from trust fund accounts, including administration, capital outlay, and some payments outside the United States. The sum of individual categories may not equal the totals due to independent rounding.

2/ Includes outlays for vocational rehabilitation, institutional care, child nutrition and welfare, and social welfare expenditures not elsewhere classified.

3/ Preliminary data.

SOCIAL SECURITY BENEFITS IN MASSACHUSETTS' FIRST CONGRESSIONAL DISTRICT

Mr. Conte: For the record, can you indicate how many people are receiving Social Security in the first congressional district, and what the amount of the benefits they receive is?

Mr. Sabatini: The total number of Social Security beneficiaries in the first congressional district of Massachusetts as of June 1985 was 131,728. They were receiving approximately $56.8 million in benefits each month.

REPORT ON SSN VERIFICATION SYSTEM

Mr. Porter: In last year's Labor, HHS report for FY 1986, this committee encouraged the Social Security Administration to upgrade its computer system and to report on the feasibility of a verification system to permit immediate access by employers and/or individuals attempting to verify Social Security numbers. Are you ready to report on this? What is the current status of this effort?

Mr. Sabatini: We have completed a draft report on the feasibility of implementing an online Social Security number (SSN) verification system. We expect that a final report will be submitted to the House Committee on Appropriations soon.

EFFORTS TO COMBAT FRAUD AND ABUSE

Mr. Porter: What other efforts are being made to combat fraud and abuse in the Social Security program?

Mr. Sabatini: SSA started issuing the current tamperproof Social Security card on October 31, 1983. The Office of Technology Assessment reported that the set of security measures used in the current card are reasonable in terms of modern technology.

In addition, for about a year SSA district offices have had black light apparatuses that are used to detect alterations in documents presented as proof of identity for Social Security card issuance and eligibility for Social Security benefits. If the black light shows that the document may have been altered, verification of the document's authenticity is requested from the issuing agency.

I would also like to mention one of the other SSA efforts to combat fraud and abuse--the death record matching program. SSA currently matches its payment files against those of the Health Care Financing Administration, the Veterans Administration, the Civil Service retirement and survivors rolls maintained by the Office of

Personnel Management, the Railroad Retirement Board, the Department of Defense retiree and survivors' file and some State Bureau of Vital Statistics files. In addition to having ongoing matching agreements with these Federal agencies, we have high expectations that we will obtain ongoing matching agreements with most or all of the 50 States. We have found that these computer matches are very effective in ensuring that payments are being made properly and that questionable payments are detected early.

TRUST FUND PROJECTIONS

Mr. Porter. It is my understanding that the Social Security trust fund is projected to run a huge surplus in the 21st century, estimated to reach $12 trillion in nominal dollars. Can you comment on this? Will this have a serious adverse effect on monetary policy in this country?

Mr. Sabatini. Under the current Social Security financing schedule, substantial trust fund assets--amounting to about five times the annual cost of the program--are projected to accumulate during the remainder of this century and the early part of the twenty-first century, to be drawn down thereafter as the "baby boom" generation reaches retirement age. We cannot be sure what effect the surplus would have on the rest of the government or on the overall economy. This is because the impact would depend on factors such as the future size and distribution of total government spending and the amount of payroll taxes relative to total Gross National Product.

Mr. Porter: Have any projections been made on the Social Security trust fund surplus in relation to projected national debt in the twenty-first century and in relation to the rate of inflation?

Mr. Sabatini. We have not made any projections relating the status of the Social Security Trust Funds to the national debt in the twenty-first century. All projections of future trust fund operations take projected changes in prices into account.

Mr. Porter: Do you anticipate that the Trustee's Report, due out in just a couple of weeks, will project a similar surplus?

Mr. Sabatini. Yes, the 1986 Trustees Report which was sent to Congress on March 31, does project positive balances in the OASI and DI trust funds until well into the twenty-first century. After that time the accumulated assets of the trust funds will be needed to meet benefit payments over the next several decades as benefit costs begin to exceed income.

STATUS OF THE TRUST FUNDS

Mr. Young: Because Social Security is such an important program to Pinellas County and the entire State of Florida, I remain concerned about the status of the trust funds. Are the short-term and long-term actuarial predictions for the financial security of the trust funds holding true to form?

Mr. Sabatini: Yes. The projections in the 1986 Annual Report of the Trustees of the OASI and DI Trust Funds reflect essentially the same patterns as the 1985 Report. Specifically, the current actuarial estimates indicate that there will be sufficient assets in both Trust Funds to pay OASDI benefits on time for the next 5 years and many years thereafter. In addition, the estimates indicate that the OASI and DI programs, separately, can operate satisfactorily for many years. During the next several years, however, the DI contingency fund ratio could decline to a relatively low level under the pessimistic assumptions (Alternative III) in the Trustees Report. However, as the Trustees pointed out, there is no reason for concern about this possibility since a reallocation of the OASI and DI tax rates (reducing the OASI rate and increasing the DI rate) could allow all benefit obligations to be met from both funds.

The long-term (75-year) estimates indicate that income will exceed costs throughout the remainder of this century and the early part of the next century. The cost rate is expected to increase rapidly after the first half of the 75-year period primarily because the number of beneficiaries is projected to increase more rapidly than the number of covered workers. At this point, accumulated trust fund assets will begin to be drawn down to meet program costs not met through current income. Overall, throughout the 75-year valuation period, under the Intermediate II-B assumptions, the average income rate is about 97 percent of the average cost rate, placing the system in close actuarial balance.

DISINVESTMENT OF THE TRUST FUNDS

Mr. Young: As you know, Congress again failed to meet many budgetary deadlines last year, and as a result, the Treasury Department was forced to disinvest some assets in the Social Security trust funds to meet our Federal Government's financial obligations. It's my understanding, however, that the trust funds have been made whole again and that there will be no short-term or long-term effects on the Social Security trust funds. Is that in reality the case or did the trust funds suffer some financial loss from last fall's disinvestment process?

Mr. Sabatini. While some decline in the invested assets of the trust funds occurred late in 1985 because of debt limit problems, the assets are now fully invested. Legislative action by Congress with the support of the Administration restored the long-term bonds that had been redeemed and prevented any losses of interest earnings to the funds. This legislation also restored interest lost due to similar disinvestment that took place in 1984.

SOCIAL SECURITY COURT PROPOSAL

Mr. Young: The New York Times reported earlier this month that the Administration has under consideration a proposal to establish a new Social Security court to handle the large backlog in Social Security disability cases being appealed. What is the current backlog of these disability cases pending appeal, and does the Administration plan to forward its proposal for a new court to Congress this year?

Mr. Sabatini: As of the end of December 1985, there were 52,795 Social Security cases pending in the Federal district courts. Most of these cases involved disability issues. The Administration favors the concept of a Social Security Court; we would be happy to work with the Congress on legislation that would establish such a court.

CLAIMS MODERNIZATION

Mr. Young: I was pleased to read in your statement about the progress that is being made in the computer modernization program. As you know, you and I have discussed in the past the implementation of the new modernized claims system that should significantly improve the Social Security Administration's ability to respond to beneficiaries needs. Your statement indicates that two pilot field offices tested the system last year and that 18 additional offices will test the system this year. Can you give us some details about these tests and has the system functioned as expected?

Mr. Sabatini: As I indicated, two pilot field offices, Baltimore (Downtown), Maryland and York, Pennsylvania have been testing the new modernized claims system since March 1985. In October 1985, 18 additional field offices began training for pilot operations, and in March 1986 nearly all of them began "live" operations on a limited basis.

The results thus far have been very encouraging. User acceptance of the new system is very high. The system is "user friendly", easy to operate, and provides the pilot offices with a large number of new capabilities. For example, using the new modernized claims system we are able to check our Social Security records for claimants in a matter of seconds, including the immediate verification of their Social Security numbers.

Claimant reaction has also been quite positive, especially regarding the new system's ability to provide immediate information to help answer their questions. All in all, experiences from the pilot offices have shown that we are moving in the right direction, both with respect to the efficiency of our operations as well as improved service to the public.

Mr. Young: What is your estimated schedule for the further implementation of the system, and when can we expect implementation of this system throughout the country?

Mr. Sabatini. We plan to operate the new modernized claims system in the pilot offices for the remainder of this year, and to use that experience to refine and perfect the system. The budget assumes that, beginning late in 1986, we will begin to expand the system nationwide with the installation of new terminals. At the same time, we will be developing the software of the modernized system to handle postentitlement actions and SSI claims. By the end of 1988, we anticipate that terminals will have been installed nationwide and that the system will be implemented on a nationwide basis.

NOTCH PROBLEM

Mr. Young: The Omnibus Reconciliation Bill continues to pass back and forth between the House and Senate and there is some question whether this legislation will ever be enacted. However, there is a provision in both the House and Senate versions that would direct the Social Security Administration to undertake a study of correcting the notch problem. The notch situation is of great concern to many of my constituents as well as beneficiaries throughout our nation. The reconciliation conference report sets December 15, 1986 as the deadline for this study. Have you begun work on this study in anticipation of this request by Congress, will you be able to meet the deadline, and will you require additional funds to complete this study?

Mr. Sabatini: The requirement for a study of the notch issue, which was in the Senate version of the Omnibus Budget Reconciliation Bill, was dropped from the bill in conference.

Mr. Young: If work is underway on the study, can you give us an idea of your preliminary findings?

Mr. Sabatini: We have no such study in progress.

FY 1985 FUNDING

Mr. Natcher. For the record, include a list of the 6 largest recipients of FY 1985 refugee social services, targeted assistance and education grants, including the amount awarded under each program.

Mr. Hawkes. In FY 1985, social services awards totalled $71.7 million. These funds were awarded based on a three-year eligible population. The 6 largest recipients were:

California	$ 20.7 million
Texas	4.4 million
New York	3.9 million
Illinois	2.7 million
Washington	2.5 million
Massachusetts	2.5 million

In FY 1985, including FY 1984 carryover funds, ORR made awards totalling $89.0 million for targeted assistance. These awards were based on refugee and entrant arrival populations of 1980-1982. The 6 largest recipients were:

California	$ 39.9 million
Florida	21.3 million
Illinois	4.9 million
Minnesota	2.8 million
Oregon	2.3 million
Massachusetts	2.2 million

In FY 1985, a total of $16.6 million was awarded for refugee education assistance. The 6 largest recipients were:

California	$ 4.7 million
Texas	1.2 million
Florida	1.1 million
Massachusetts	1.1 million
Illinois	.8 million
Washington	.7 million

Mr. Conte. Mr. Hawkes, can you give us an update on the court case that was brought against the Department by several members of Congress to fight an impoundment of $11.5 million last year? I believe the money eventually went out, but has the court reached a final decision yet?

Mr. Hawkes. While a final decision has not yet been handed down by the court, ORR has made the $11.5 million in targeted assistance funds available to eligible States in accordance with the determination made by the Federal District Court in the Fall of 1985.

PROGRAM CONSOLIDATION

Mr. Conte. Why do you think it's a good idea to combine AFDC and Medicaid benefits to refugees under your office?

Mr. Hawkes. Since the enactment of the Refugee Act of 1980, States increasingly have determined refugees to be eligible for the programs of AFDC and AFDC-UP. Once refugees are on the AFDC program, they are outside the effective control of the Refugee Act and thus of ORR. Often times refugees receiving AFDC-UP are simply determined to be "unemployable" and are not required to seek employment or to participate in employment-directed training. Other AFDC-UP requirements such as the 100-hour rule serve as effective disincentives to refugees seeking employment. Unfortunately, these disincentives are codified in Federal welfare law and regulations and, under the existing system, could not be changed solely for refugees. These problems could be addressed more effectively if all types of refugee assistance cases were included under refugee cash assistance (RCA) and refugee medical assistance (RMA) programs rather than divided as at present among RCA, AFDC, AFDC-UP, RMA, and Medicaid.

CALIFORNIA DEMONSTRATION PROJECT

Mr. Conte. What results do you have from the Refugee Demonstration Program begun in California last year? Is it saving money?

Mr. Hawkes. It is really too early in the life of the project to have any meaningful results. As of December 31, 8,425 cases representing 37,321 refugees were enrolled in the project. Outcome data are, however, too incomplete to allow us to report on job placements or cost savings at this point.

ALL-RCA PROGRAM

Mr. Conte. What evidence do you have that limiting assistance to the first eighteen months will produce better and faster self-sufficiency for refugees, as your statement seems to indicate?

Mr. Hawkes. We believe that providing assistance, as needed, to all refugees under the RCA and RMA programs for the first 18 months would encourage refugee self-sufficiency and reduce welfare dependence. An all-RCA/RMA program would allow ORR to meet the requirements of the Refugee Act of 1980 that: 1) refugees be referred to employment services which are funded under the Act and are specifically designed to meet refugee needs, and 2) sanctions be applied if recipients failed to participate. An all-RCA/RMA program would also overcome major deterrents to full-time employment. Under RCA a refugee can be required to accept an entry-level job while continuing to receive supplementary assistance (including medical benefits if warranted at the refugee's income level) while being employed, gaining work experience and participating in part-time training to improve English and job skills. An all-RCA/RMA program is expected to result in savings to the Federal government. The more stringent work requirements based on strict employability standards combined with more effective case-management should reduce the overall refugee dependency rate.

VOLUNTARY AGENCY PROGRAM

Mr. Conte. I was surprised again to see your proposal to reduce the Federal matching payment to voluntary agencies to $250. Even with the reduced flow, it was my understanding that this program, which resettles most refugees from the Soviet Union and Eastern Europe, represented a significant savings over the more extensive assistance programs.

How many voluntary agencies are funded under this program?

Mr. Hawkes. The following agencies are currently participating in the matching grant program: The Lutheran Immigration and Refugee Service, the Council of Jewish Federations, the United States Catholic Conference, and the International Rescue Committee.

Mr. Conte. Do you have evidence that all these agencies can make up the drop in Federal funds through increased private sector financing?

Mr. Hawkes. Historically, agencies provided support to refugees prior to extensive Federal involvement in the refugee program. It is believed that the availability of Federal funding for the refugee program as a whole limited the level of private funds contributed.

GRANTS MANAGEMENT

Mr. Conte. You reported to the Committee last year that significant improvements had been made since the GAO review of your grant administration in late 1983.

Is that improvement continuing, and has the GAO done any follow-up studies on the program?

Mr. Hawkes. ORR continues to perform at the improved level of grant administration reported to you last year. At this time GAO has not done any follow-up studies on the program.

PROGRAM CONSOLIDATION

Mr. Roybal. Please explain why the ORR proposes to consolidate the refugee cash and medical assistance benefits currently funded under the AFDC and Medicaid programs into the Refugee and Entrant Assistance Program, especially since this transfer will result in these benefits being subject to sequestration under Gramm-Rudman.

Mr. Hawkes. We believe that providing assistance, as needed, to all refugees under the RCA and RMA programs for the first 18 months would encourage refugee self-sufficiency and reduce welfare dependence. An all-RCA/RMA program would allow ORR to meet the requirements of the Refugee Act of 1980 that: 1) refugees be referred to employment services which are funded under the Act and are specifically designed to meet refugee needs, and 2) sanctions be applied if recipients failed to participate. An all-RCA/RMA program would also overcome major deterrents to full-time employment. Under RCA a refugee can be required to accept an entry-level job while continuing to receive supplementary assistance (including medical benefits if warranted at the refugee's income level) while being employed, gaining work experience and participating in part-time training to improve English and job skills. An all-RCA/RMA program is expected to result in savings to the Federal government. The more stringent work requirements based on strict employability standards combined with more effective case-management should reduce the overall refugee dependency rate. We recognize that sequestration could affect such funding but would anticipate that Congressional actions on appropriations would avoid the need for sequestration.

TARGETED ASSISTANCE

Mr. Roybal. Why does the ORR propose eliminating funding for the Targeted Assistance Program when counties like Los Angeles County are still receiving a disproportionately large number of the refugees resettling in the United States?

Mr. Hawkes. The Targeted Assistance program awards were based on the refugee population that arrived from 1980-1982, years of highest arrivals. These funds may not supplant normal funding and, therefore, supplement regular social service awards based on the three-year eligible population.

A major justification for Targeted Assistance funding was that, during the years of peak flows (1980-1982), the influx of refugees overwhelmed the capacity of service providers to provide services. Furthermore, funding under the regular social services program would have been insufficient to adequately respond to the backlog of service needs which, if not met, would further exacerbate welfare dependency. Thus, the Targeted Assistance program was envisioned as a short-term, locally-administered program to address particular needs in the communities most affected by the large influx of refugees.

ORR's on-site monitoring in Los Angeles County and throughout California has shown that much of the Targeted Assistance funding has not substantially reduced welfare dependency, particularly among the AFDC-UP population. This is the population which constitutes the principal burden qualifying the County to receive Targeted Assistance funding. ORR has brought the problem to the attention of the State and county and has recommended that steps be taken to more carefully target the use of available funds throughout the remainder of the program. Remedial action under existing grants must occur before new funding is considered.

Under the FY 1983 Targeted Assistance program, Los Angeles County had an unexpended balance of over $1.4 million. These funds were carried over, or added to the FY 1984 - 1985 awards, bringing the total awards to Los Angeles County to nearly $20 million in Targeted Assistance funding.

Present funds already awarded under the Targeted Assistance program will be sufficient to provide services through March 1987 in Los Angeles County and throughout most of the targeted areas. It is likely that many States will have unexpended Targeted Assistance funds at that time. (In addition, if our current rescission request is not approved, FY 1986 funds will support Targeted Assistance activities at least through March 1988.) Thus, with funds presently available, local administering agencies will have had more than 3.25 years of Targeted Assistance support with which to address special needs of refugees in their respective communities, in addition to the funding available in these same areas through the regular social services program. Further funding is therefore seen as unwarranted at this time.

Mr. Roybal. Assuming Congress does not approve the ORR's proposed rescission of the FY 1986 appropriation for the Targeted Assistance program, does the ORR plan to release these funds in a timely manner, or wait until the third and fourth quarters of the year as it has done in the past?

Mr. Hawkes. As the budget rescission document (page 306) indicates, current funding "will be adequate to continue assistance through March of 1987." In the event that the Congress does not approve ORR's proposed rescission of the FY 1986 appropriation for the Targeted Assistance Program, ORR will release the funds in a timely and prudent manner and well before they would be needed in March 1987.

FY 1987 PROGRAM REVISION

Mr. Roybal. The Administration's proposed FY 1987 budget would reduce the duration of full Federal reimbursement of State and local refugee cash and medical assistance costs from 36 months to 18 months. I am concerned that this proposal would result in a significant shift in costs from the Federal Government to California, which alone accounted for 69.3 percent of all refugee AFDC recipients nationally who had been in the U.S. for less than 36 months, as of March 1985.

What do you estimate to be the total savings to your office's budget in FY 1987 that would result from reducing the period of full Federal reimbursement from 36 months to 18 months? How much less Federal refugee reimbursement would California receive as a result of such a change?

Mr. Hawkes. On page 9 of the budget justification document, we estimate the reduction in payments to States for cash and medical assistance (and related administrative) costs reflecting an 18-month period of eligibility at $30.4 million. The change affects AFDC and General Assistance recipients in the country over 18 months. California is estimated to account for approximately 60-70 percent of the total national population of these recipients. Thus, California would receive about $18.0 - $20.0 million less as a result of this proposed change.

FY 1986 REIMBURSEMENT POLICY CHANGE

Mr. Roybal. To implement the FY 1986 Gramm-Rudman sequestration cut of 4.3 percent, your office reduced the duration of full Federal reimbursement of State and local refugee cash and medical assistance from the 36-month period under existing law to 31 months, effective March 1, 1986 through the end of FY 1986. I am concerned that such a reduction in the duration of 100 percent Federal reimbursement would result in more than a 4.3 percent cut to the State of California and its counties. I understand that the county of Los Angeles estimates that it would result in over an 8 percent cut in its Federal refugee cash assistance reimbursement.

What does your office estimate to be the Federal revenue loss to California that would result from limiting full Federal reimbursement to 31 months for March through September 1986? If in the event that the 31-month reimbursement policy results in over 4.3 percent savings to the Federal budget, what would your office do with the excess savings? On the other hand, if the 31-month policy results in less than the required 4.3 percent savings, how would your office achieve the additional savings?

Mr. Hawkes. We estimate that Federal revenue loss to California resulting from the 31-month reimbursement policy would be $2.2 million in FY 1986. In the event that there should be excess funds, which we do not now anticipate, we would plan to allocate them among the States. As in other years, a fixed amount has been identified as being available to us for cash and medical assistance under the Continuing Resolution. For FY 1986, the Gramm-Rudman-Hollings reduction of 4.3 percent has already been taken in determining the amount of funds available to us. In the event that the 31-month policy should not yield sufficient savings so that claims from States exceed the available funds -- an occurence which we believe to be unlikely based on current financial data -- we would plan to take a proportionate reduction among the claims of all States in order to remain within the available funds.

Mr. Roybal. My interpretation of your office's February 27, 1986 Federal Register notice on your proposed allocation of FY 1986 refugee social service funds to States is that the entire 4.3 percent FY 1986 Gramm-Rudman cut in social services funding would be taken entirely out of the portion of funds allocated directly to States. However, there would be no cut in the $7 million in social service funds that your office reserves for discretionary projects.

In light of the fact that your office also is requesting a rescission of $23.8 million in social services funds, how do you justify taking the Gramm-Rudman cut entirely out of State allocations which support direct services to the refugees?

Mr. Hawkes. In Fiscal Year 1985 approximately $9.9 million was allocated for discretionary programs to support activities intended to contribute to the effectiveness and efficiency of the refugee resettlement program. Initial planning, based upon the Continuing Resolution for FY 1986, was for $8.6 million to be allocated for similar activities.

ORR now anticipates an allocation of $7 million for these purposes, a reduction of 18.6 percent. An estimated 75 percent of this allocation will be utilized to fund grants directly to State agencies. In changing the ratio of discretionary funds from 15 percent to the current 25 percent, ORR is attempting to increase its options for funding effectively conceived proposals rather than simply continuing to fund all the States on a formula basis and without regard to proposals' merits.

FY 1987 PROGRAM REVISION

Mr. Roybal. The Administration's proposed FY 1987 budget would preclude refugees who have been in the U.S. for 18 months or less from receiving AFDC or Medicaid. Such refugees, instead, would be eligible for refugee cash assistance and medical assistance benefits funded entirely out of the ORR budget. I am concerned that, while the AFDC and Medicaid budgets are exempt from the automatic Gramm-Rudman sequestration cuts, your office's budget is not.

Assuming that refugee cash and medical assistance would be funded entirely out of the ORR budget, as you propose, how would your office implement a future Gramm-Rudman sequestration cut? Would you reduce the duration of benefits from 18 months to a shorter time period? Would you cut benefit levels or tighten eligibility requirements?

Mr. Hawkes. We believe that such a decision would have to depend on the magnitude of a sequestration cut since an important question would be how to determine the most appropriate and effective use of reduced funds. Depending on the size of such a reduction, it could affect the duration or the scope of funding or both.

TARGETED ASSISTANCE

Mr. Roybal. The Administration's proposed FY 1987 budget contains no funds for refugee targeted assistance; yet the impact of refugees on Los Angeles County, which I represent, is growing, not diminishing. During the past three years, 18,563 refugees -- or over 9 percent of all refugees who entered the U.S. -- were directly resettled into Los Angeles County. In addition, thousands more refugees have moved into Los Angeles County from other States as a result of secondary migration. Furthermore, over 60,000 refugees are on welfare in Los Angeles County.

Do you really believe that there is no longer a need for these services currently being funded through the targeted assistance program in Los Angeles County?

Mr. Hawkes. We do not believe that Targeted Assistance resources have been successfully applied to refugee problems. ORR reviewed the use of FY 1983 Targeted Assistance funding in LA County, where, as you say, 60,000 refugees were on public assistance. We found that many of the clients served were not public assistance recipients despite the enormous dependent population. Output data show that in this universe of 60,000 needy persons, only 936 were placed in jobs with a 90-day retention rate, and only 345 cases were taken off public assistance as the result of the Federal Government's $6.5 million investment.

ORR has brought this problem to the attention of the State and county and has recommended that steps be taken to more carefully target the use of available funds throughout the remainder of the program. Remedial action under existing grants must occur before new funding is considered.

Under the FY 1983 Targeted Assistance program, Los Angeles County had an unexpended balance of over $1.4 million. These funds were carried over, or added to the FY 1984 - 1985 awards, bringing the total awards to Los Angeles County to nearly $20 million in Targeted Assistance funding.

Present funds already awarded under the Targeted Assistance program will be sufficient to provide services through March 1987 in Los Angeles County and throughout most of the targeted areas. In addition, if our current rescission request is not approved, FY 1986 funds will support Targeted Assistance activities at least through March 1988.

REFUGEE ADMISSIONS AND RECIPIENTS

Mr. Roybal. The Administration is requesting only $46.8 million for the refugee social services program in FY 1987. This amounts to a 35 percent cut below the $71.7 million appropriations level for the program in both FY 1985 and 1986. In your testimony before the Senate Appropriations Committee, you stated, "Funding under continuing resolutions over the past several years has fixed the level of social services resources in the face of a continued decline in numbers of arriving refugees with the result being that social services resources are now substantially in excess of need."

I am disturbed that your FY 1987 social services budget request once again is based on the number of new refugee arrivals, even though the Congress has rejected such a justification every year that you have directed ORR. I believe that the social services funding level should be based on the number of refugees who need social services, regardless of their date of entry. I also believe that there continues to be a tremendous need for services among refugees -- especially those from Southeast Asia.

How many Southeast Asian refugees have entered the country since 1975, and how many Southeast Asian refugees are on public assistance, including those who have been in the U.S. for more than 36 months?

Mr. Hawkes. As of the end of FY 1985, 761,000 refugees had entered the U.S. from Southeast Asia.

The total time-eligible cash assistance caseload numbered about 92,000 refugees of all nationalities.

Most States do not maintain data on the time-expired portion of their refugee cash assistance caseload. However, as of late 1985, we judge that approximately 145,000 time-expired refugee recipients of all nationalities could probably be documented, primarily in California and other selected States with large refugee populations.

FUNDING REDUCTIONS

Mr. Young. Mr. Hawkes, I also want to welcome you back before our Committee. Funding for the targeted assistance program always seems to be a sticking point during this hearing and apparently will be again this year. After lengthy litigation last year, the States of Florida and California were successful in having released the full amount of targeted assistance funding appropriated by this Committee for Fiscal Year 1986. Your budget request, however, recommends a rescission this year for the full $50 million that was appropriated. Your budget also recommends totally eliminating Fiscal Year 1987 funding for targeted assistance.

If I might read for a minute from your budget justification booklet, you say that targeted assistance funding is being eliminated because "The major problems of impact (from refugees) have been addressed, and normal social services allocations will be sufficient to meet refugee service needs."

Being from Florida, I can tell you that is just not the case. The 1980 Mariel boatlift and the influx of Haitian refugees to our shores the past few years continue to have a serious economic impact on Florida. Jackson Memorial Hospital in Miami has informed me in a letter, that I would like to submit for the hearing record, that in the past six years, Federal medical assistance for refugee health care has fallen $20.5 million short of their needs.

Our Fiscal Year 1985 appropriation provided $7 million for refugee and alien health care at Jackson Memorial. The hospital used up these funds in just five months.

The impact of refugees and illegal aliens has been just as severe on our State and counties' criminal justice systems, mental health programs, day care centers, and employment service programs.

This is not only a problem in Florida. Refugees and aliens have a significant economic impact on other States as well, including northeastern States such as Massachusetts, midwestern States such as Illinois, and western States such as California. All of these States are represented on this Committee, and I believe we all share the same concern about your budget request.

If I might refer again to your justification statement, you say that targeted assistance funding appropriated in Fiscal Years 1983 through 1985 will provide refugee assistance through March of 1987. I have a letter here from Florida's administrator for refugee programs stating that is just not the case. While some States may not spend all their funds in a timely fashion, Florida expends its funds on a fiscal year basis and will be out of funds by the end of December.

Refugees and aliens are a Federal responsibility. The Federal Government is responsible for their interdiction. If that is not possible, the Federal Government should then be responsible for the adverse economic impact they have on our State and local governments.

Given this information, can you explain your budget request for Fiscal Year 1987 which includes no request for targeted assistance funding and a 40 percent reduction in social services funding?

Mr. Hawkes. The Targeted Assistance program is awarded based on the refugee/entrant population that arrived from 1980-1982, years of highest refugee and entrant arrivals. These funds are in addition to States' regular social service awards granted each year based on the three-year eligible population.

A major justification for Targeted Assistance funds was that, during the years of peak flows (1980-1982), the influx of refugees and entrants overwhelmed the capacity of service providers to provide services. Furthermore, funding under the regular social services program would be insufficient to adequately respond to the backlog of service needs which, if not met, would further exacerbate welfare dependency. Thus, the Targeted Assistance program was envisioned as a short-term, locally-administered program to address particular needs in the communities most affected by the large influx of refugees and entrants.

ORR has been operating under a continuing resolution for the past three years. The social services and the Targeted Assistance programs have been operating at comparatively higher funding levels than initially contemplated due to the language of the continuing resolution. That is, instead of basing social service allocations on the known three-year time-eligible population, the funding level over the past few years has been based on the higher arrival levels of 1980-1982. Thus, while arrivals have dropped considerably over the past few years, funding levels have not dropped comparably. The proposed reduction would return ORR to the time-based formula.

Under the Targeted Assistance program and its predecessor, the Impact Aid program, ORR has awarded a total of $243.5 million. Of this total, the State of Florida has received $106.3 million or 43.6

percent of available funding. On a per capita basis, Florida's funding amounts to $1,241 for each of the State's estimated 136,100 refugees and entrants. California, in contrast, has received $66.3 million in Targeted Assistance for an estimated refugee and entrant population of 318,650, or $618 per capita. In addition, more than $60 million was awarded to Florida in social service grants from 1980-1985. Florida was awarded these funds based primarily on the entrants arriving during 1980. Unlike other States, further refugee and entrant resettlement in Florida has been minimal. These figures clearly demonstrate that Targeted Assistance funding for the State of Florida has been more than fair.

Florida is likely to be the only State that will have expended its Targeted Assistance funds prior to March 1987. However, on March 28, 1986, the State of Florida submitted a carry-over request for $619,418 of unexpended FY 1983 Targeted Assistance funds. Programming requests indicate that these funds will be expended by March 1987. Thus, based on presently available funding already awarded, local administering agencies will have had more than 3.25 years of programming with which to address the special needs of refugees and entrants in their respective communities. Further funding is therefore seen as unwarranted at this time.

March 17, 1986

The Honorable C.W. (Bill) Young
2266 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Young:

The Targeted Assistance Program has helped Jackson Memorial Hospital in providing for the health care needs of those individuals who arrived in this country as Cuban/Haitian entrants and who are deemed eligible by the Federal Government for this support.

For the period from October 1, 1979 through September 30, 1985 (the end of our last fiscal year) the various Federal programs for these people have provided $20,515,809 less than the cost of services rendered to them. The need is still continuing. All figures cited in this letter do not include the illegal aliens, refugees from other countries such as Nicaragua, or those Cubans and Haitians who do not meet the Federal criteria for support.

The current grant will furnish $7,000,000 for this year, based on the fiscal 1985 appropriation. Our expenditures, at Medicaid reimbursement levels (slightly below cost) for services already rendered this year are as follows:

Services rendered during the month of	October, 1985 -	$ 1,096,059
	November, 1985 -	1,498,621
	December, 1985 -	947,428
	January, 1986 -	1,631,262
	February, 1986 -	1,552,533
	Total	$ 6,725,903

These dollars represent 2,254 inpatient admissions and 20,714 outpatient visits for 9,043 persons during the five months. Approximately two-thirds of the patients are women and children utilizing the obstetrics/gynecology, pediatrics and newborn services. Thus, the current year's funds will all have been spent by this writing. The need is continuing and services will be provided at the expense of the local taxpayer and community.

An additional effect of treating these refugees includes the overcrowding of our facilities, to the extent that we were required to acquire additional buildings off our campus to handle the large growth in births and gynecology. Other effects include the maintenance of a corps of interpreters, the appearance of AIDS, tuberculosis, leprosy and other tropical infectious diseases as well as mental health problems.

Your assistance and that of your committee is necessary and greatly appreciated in assuring the continuance of the Targeted Assistance Program which only partially assists us but is vital to our ability to continue. We will be glad to furnish additional information that you may request.

Sincerely,

Leon W. Zucker
Vice President for Finance
Public Health Trust

March 17, 1986

Honorable C. W. Young
Member of Congress
144 First Avenue South
St. Petersburg, Florida 33701

Dear Congressman Young:

Thank you for the opportunity to explain the implications of our state's continuing dependence on Targeted Assistance funding at the local level. The citizens and communities of Florida continue to bear the impact of the Mariel boatlift of 1980 and the uncontrolled influx of Haitians into South Florida from 1978 through 1981.

For FFY 1983, the Office of Refugee Resettlement estimated that at least 115,155 of the more than 140,000 entrants who entered the United States between April 1, 1980, and October 1, 1980, resided in four counties in Florida: Hillsborough, Palm Beach, Broward, and Dade. This figure does not include those Haitians who had entered before 1980 or who entered during 1980 unknown to the Immigration and Naturalization Service, and subsequently were given entrant status under the provisions of the Fascell-Stone Amendment to the Refugee Education Assistance Act of 1980; nor does it include those Haitians who have arrived since 1981 and have been released from federal detention under INS parole authority or under federal court order. In fact, the State of Florida and many others working with the Haitian population--including the Archdiocese of Miami--estimate that as many as 100,000 Haitians may now reside in South Florida. In addition, population estimates used by the federal government do not account for secondary migration, especially of Mariel Cubans who were initially resettled in other states but are drawn back to the familiar environment that Dade County offers. Although secondary migration estimates are difficult to develop, Dade County's Criminal Justice Project (first funded under FFY 1982 Impact Aid) found that twenty percent of the approximately 1300 Mariel Cubans it assisted between January and December of 1983 had migrated back to Florida, primarily from California, Illinois, New York and New Jersey.

While many of the Mariel Cubans and the Haitians have become self-supporting since their entry into this country, a significant number of them still do not speak English, lack job skills, and have other health, social, and cultural barriers that have prevented them from becoming self-sufficient.

During SFY 1985, we have continued to operate programs in Dade, Broward, Hillsborough, and Palm Beach Counties. These programs have been funded with 1984 Supplemental Targeted Assistance dollars and 1985 Targeted Assistance dollars. These funds, however, only offset the impact of the needs of the entrant population on our communities.

The 1984 Supplemental Targeted Assistance was programmed for SFY 1985 because these funds were not made available to us until late in the 1984 SFY. After the impoundment of the 1985 Targeted Assistance funds was resolved (with your assistance and assistance from the members of the Florida Congressional Delegation) these funds were programmed for 1986. The following is a county-by-county description of the funding, the length of the contract, and the contracted amount.

Hillsborough County

Hillsborough County Employment Program 7/1/85 - 6/30/86	$188,074
Lutheran Ministries (Employment Program) 9/28/85 - 6/30/86	$149,190

- ° We anticipate no Targeted Assistance funding being available in Hillsborough County after June 30, 1986.

Palm Beach County

Job Services of Florida (Employment Program) 9/20/85 - 6/30/86	$160,000
School Board of Palm Beach County (Day Care) 9/30/85 - 6/30/86	$ 32,220
School Board of Palm Beach County (Day Care) 12/01/85 - 6/30/86	$ 83,363

- ° We anticipate no Targeted Assistance funding being available in Palm Beach County after June 30, 1986.

Broward County

Broward County Employment Program 9/30/85 - 9/28/86	$954,152

- ° We anticipate no Targeted Assistance funding being available in Broward County after September 30, 1986.

Dade County

Dade County (Day Care) 7/1/85 - 6/30/86	$ 1,331,601
City of Miami (Employment Program) 7/1/85 - 6/30/86	$ 405,913
Jackson Memorial Hospital 10/1/85 - 8/31/86	$ 11,000,000

Mental Health 7/1/85 - 6/30/86	$ 1,500,000
S.F.E.T.C. (Employment Program) 1/1/85 - 12/31/86	$ 3,000,000

- We anticipate no Targeted Assistance funding being available in Dade County after March 1987.

From our experience with these problems, we know these funds will be exhausted at the end of December, except for minimal amounts in Dade's employment program and mental health contracts.

The loss of Targeted Assistance dollars will be particularly painful to Florida counties coming on the heels of the loss of revenue sharing. Dade County has had a particularly difficult time, especially in providing health care for indigent refugees/entrants. Jackson Memorial Hospital spends $800,000 to $1.2 million in health care for Cuban/Haitian entrants per month. Partial fiscal relief is provided by the federal government through a $6 million Targeted Assistance grant each year.

Targeted Assistance and Social Service dollars continue to be an integral part of the successful resiliency of our state to the crises of 1980. Social Services dollars, if trimmed in the manner recommended by Dr. Hawkes, will cause the state to seriously curtail all contractual programs currently in operation.

We in Florida are willing to share in the collective responsibility to ensure laws are upheld and people are cared for. We do not ask for a windfall, but we do ask for an amount of fiscal relief sufficient to assist us in carrying on programs that have been proven successful. If the President is successful in eliminating the Targeted Assistance program and reducing the Social Services program, Florida's communities will suffer.

We appreciate your continued concern, and solicit your support in assuring that we can retain a reasonable level of programming to assist our communities in need.

With kind regards,

Sincerely,

Nancy K. Wittenberg
Refugee Program Administrator

CHILD SUPPORT ENFORCEMENT

Mr. Natcher: The 1987 request for child support is up from $471 million in FY 1983. Why have these costs increased by more than 30% over a four year period?

Mr. Ritchie: States have been gearing up to implement the Child Support Enforcement Amendments of 1984. They have been investing in more cost effective resources and procedures. Increased expenditures have included ADP equipment, new staff, and cooperative agreements with State and local agencies. The investment in new resources will continue to occur through the balance of FY 1987. By that time the majority of investment in new resources associated with the new legislation will have been completed. This investment in new resources is causing the Child Support Enforcement (CSE) Federal deficit to grow through FY 1987.

The Federal share of savings has been negatively impacted by the $50 disregard provision of the Deficit Reduction Act, causing a loss of approximately $98 million in FY 1985 and rising to $124 million in FY 1987, based on actual data as reported by States for FY 1985 as opposed to figures reported in the Federal budget based on estimates. Factoring out the $50 disregard provision of the Deficit Reduction Act, program costs have increased 22 percent, while collections have increased 61 percent.

A combination of factors are responsible for the increased costs. Prior to FY 1986, program financing structure was generous to the States, and not related to performance. Federal and State governments split AFDC child support collections in the same ratio as financing of States' AFDC program. States receive Federal matching for their program. States also received 12 percent of AFDC collections as an incentive. This incentive was paid entirely from Federal share of collections. Only the Federal share of AFDC collections was and is available to offset Federal costs.

Mr. Natcher: Mr. Ritchie, your budget justifications state repeatedly what this Committee already knows - that the child support program is operating at a net loss to the Federal Government. Tell us if you will how much money the Federal Government will lose as a result of this program in 1986 and 1987?

Mr. Ritchie: The Child Support Enforcement program is the only Federal program that provides much needed services while generating revenue, and unlike other programs operates at a net savings to the taxpayer.

The net impact on the Federal government is shown in the following charts:

Office of Child Support Enforcement

($ millions)

	FY1985	FY1986	FY1987
Federal share of costs[2].......	$ 578[1]	$ 641	$ 707
Federal share of collections...	356	386	417
Federal loss..................	$ -222	$ -255	$ -290

The Federal share of collections has been negatively impacted by the $50 disregard provision of the Deficit Reduction Act. The net impact of Federal savings would appear as follows without the $50 disregard.

($ millions)

	FY1985	FY1986	FY1987
Federal share of costs[2].......	$ 578[1]	$ 641	$ 707
Federal share of collections...	454	498	541
Federal savings................	$ -124	$ -143	$ -166

[1] Reflects data as reported in Annual Report
[2] Includes proposed legislation for FY 1987

Mr. Natcher: Is there any possibility under current law for the Federal Government to break even on this program financially?

Mr. Ritchie: Under the current financing structure of the program, the Federal government is dependent upon the cost effectiveness of State programs. The 1984 Child Support Enforcement Amendments provide a revised incentive formula, effective FY 1986, and phased reduction in the Federal matching rate in FY 1988 and FY 1990, emphasizing and rewarding performance. We have proposed for FY 1987 to advance the FY 1990 scheduled Federal match reduction, virtually maintaining the current match rate in effect due to Gramm-Rudman-Hollings, further encouraging improved performance and cost effectiveness.

The Federal government can break even on the Child Support Enforcement program by maximizing child support collections on behalf of AFDC recipients while containing costs. The average cost effectiveness ratio for AFDC collections to total expenditures needs to be 2.00:1 in order to break even, while non-AFDC collections remain constant.

Mr. Natcher: Your statement indicates that the child support program overall has a cost benefit ratio of 3.2 to 1. This estimate assumes, however, that all collections are attributable to the Federal program. Your own evaluation 3 years ago stated that many of these collections would take place with or without the Federal program. How much of the 3,022 million in 1986 collections do you believe is the direct result of Federal spending in the program?

Mr. Ritchie: A study of the CSE program indicated that 12 to 20 percent of obligated absent parents pay regularly. We do not know to what extent the existence of an enforcement program, i.e., threat, contributes to regular payments. Increases in collections are evident since FY 1982, 9% in FY 1982, 14% in FY 1983, 17% in FY 1984, and 13% in FY 1985. Slight improvement, from 40% to 43%, has been seen between 1981 and 1983 in the percentage of women below the poverty level who were eligible for child support and had an agreement or award. Also improvement, from 72% to 76%, has been seen, between 1981 and 1983, in the percentage of women who were suppose to receive payments and those who actually received them.

Mr. Natcher: Mr. Ritchie, what are you as the Federal manager of this program doing to reduce the cost of the program?

Mr. Ritchie: We are striving to improve cost effectiveness through implementation of the 1984 Amendments which offer stimuli for an improved program by relating the incentive structure to program performance. The mandatory State practices, particularly automatic, mandatory wage withholding and expedited process, enhance States' abilities to efficiently and effectively collect child support. We are also encouraging automation and reliance on the private sector for certain program operations. We hope to build awareness and change attitudes so that payment of support will not require as high a degree of governmental enforcement action.

Mr. Natcher: On page 39 of the justification you indicate that you will decrease your Federal employment by 10 FTE's but that Federal administrative costs will increase by more than 8%. Why are Federal administrative costs increasing by such a large amount?

Mr. Ritchie: The increase can be attributed to the Gramm-Rudman-Hollings reductions this agency absorbed in FY1986, which give a false impression of an increase in administrative expenses in FY 1987. The FY 1987 request represents maintenance levels for administrative support services.

Mr. Natcher: Tell us specifically how the increase of $1,672,000 for Federal administration will be spent. What will you buy with this money?

Mr. Ritchie: There will be no actual increase in budgetary resources available to OCSE in FY 1987 except for the impact of Gramm-Rudman-Hollings (GRH) in FY 1986, which makes a "no-growth" FY 1987 budget request appear to be an increase. In addition, FY 1986 budgetary resources include carryover of prior year funds of $1,176,000. This also reduced FY 1986 budget authority. When comparing budgetary resources for FY 1986 before GRH and other budgetary restrictions with those requested for FY 1987, OCSE is actually requesting 2 percent less in budgetary resources.

Mr. Natcher: On page 13 of the budget documents you indicate that your request for "other services" will increase by more than 50% from $3,401,000 to $5,224,000. What is the reason for this increase?

Mr. Ritchie: There is no actual increase in the request for "other services" in FY 1987. The chart on page 13 deals only with new budget authority and not total budgetary resources available to the agency. There is $1,176,000 in prior year carryover funds also available in FY 1986 that are not shown. Additionally, the GRH cuts also make FY 1986 appear low when compared with FY 1987. Both the carryover funds and the GRH cuts came primarily from "other services".

Mr. Natcher: Insert in the record at this point a table for FY's 1982 to 1987 showing total costs, Federal costs and State costs of the child support program along with similar data on savings. Also include a table for FY 1980 to 1986 showing the initial budget estimate for child support in the President's budget compared to actual costs for each year. Finally insert in the record at this point an explanation of how collections are calculated for the program including how you distinguish between collections which are the direct result of the program and those which would likely have occurred with or without the program.

Mr. Ritchie: I will be pleased to provide the information for the record.

Date: 4/09/86

Financial Overview
For Six Consecutive Fiscal Years
($000)

	1982	1983	1984	1985	1986 est.	1987[1] est.
Total IV-D Collections	$1,770,378	$2,024,184	$2,377,788	$2,695,724	$3,022,000	$3,271,000
AFDC Collections	785,931	879,862	1,000,147	1,091,994	1,199,000	1,293,000
State Share	353,591	395,525	447,682	416,249	438,000	469,000
Federal Share	310,931	349,061	402,020	355,790	386,000	417,000
Payments To AFDC Families	14,776	14,538	16,763	188,730	215,000	236,000
Incentive Payments	106,632	120,738	133,682	131,225	160,000	171,000
Non-AFDC Collections	984,447	1,144,322	1,377,641	1,603,730	1,823,000	1,978,000
Total IV-D Administrative Expenditures	611,792	691,106	722,910	821,164	945,000	1,049,000
State Share	152,914	203,967	215,841	242,671	304,000	342,000
Federal Share	458,878	487,139	507,069	578,493	641,000	707,000
Total Program Savings	159,363	175,218	260,474	82,101	39,000	8,000
State Share	307,309	312,296	365,522	304,803	294,000	298,000
Federal Share	-147,946	-138,078	-105,048	-222,702	-255,000	-290,000

1/ Includes proposed legislation

Office of Child Support Enforcement
State and Local Administrative Budget
Comparison of President's Budget to Actual
($ in millions)

Fiscal Year	1980	1981	1982	1983	1984	1985	1986
President's Budget($)	333	310	471	387	413	545	639
Actual($)	349	395	459	487	507	578	N/A

The projection of child support collections are based on estimates provided to this Office by the State Child support agencies. (Historically those estimates have been on a quarterly basis, but as of March 30, 1986 will be made on a semi-annual basis.) These estimates are analyzed by OCSE on the basis of recent historical experience on a state-by-state basis, and knowledge of the impact of new legislation, such as the Child Support Enforcement Amendments of 1984.

The estimates provided to us by the States make no differentiation between those collections which are directly attributed to the child support legislation and those collections that would have occurred without it.

Mr. Conte: To what extent is Child Support Enforcement action helping to find people the resources they need to live on other than welfare?

Mr. Ritchie: Approximately 35,000 families each year are assisted by the Child Support Enforcement program sufficiently to leave the welfare rolls. We believe the figure to be significantly higher than this because many States do not accurately report this information. We believe States tend to underreport, some even report that no families have left the welfare rolls because of the program.

Total child support collections through FY 1985 reached nearly $15.9 billion. Of this amount, over $6.8 billion has been collected on behalf of families receiving AFDC and nearly $9.1 billion for non-AFDC families. Legally enforceable support obligations established total more than 3.3 million over the first ten years of the program. Paternity has been established for more than 1.2 million children through the CSE program.

Slight improvement, from 40% to 43%, has also been seen between 1981 and 1983 in the percentage of women below the poverty level who were eligible for child support and had an agreement or award. Also improvement, from 72% to 76%, has been seen, between 1981 and 1983, in the percentage of women who were suppose to receive payments and those who actually received them.

Mr. Conte: Why is child support enforcement increasing so rapidly in cost?

Mr. Ritchie: The total impact of the Child Support Enforcement program must be realized, for the taxpayer and for government. Total savings to the taxpayer in FY 1985 was $82 million. State savings in the same year were $305 million while the Federal deficit from the program was $223 million. The Federal share of savings is negatively impacted by the $50 disregard provision of the Deficit Reduction Act, causing a loss of approximately $98 million in FY 1985 and rising to $124 million in FY 1987. (Figures reflect actual data as reported by States for FY 1985 as opposed figures reported in the Federal budget based on estimates.)

The Department's legislative proposals for FY 1987 move program funding more in the direction of rewarding results, not just funds spent on administration. The proposals also help to lessen the direct Federal deficit in child support enforcement. Additional savings realized by the Federal government, but not reflected in the CSE budget are cost avoidance to the Federal government of welfare savings related to non-AFDC enforcement and collection activities (no figure available) and Medicaid third party liability savings to the Health Care Financing Administration of approximately $60 million in FY 1987.

Because of the Child Support Enforcement Amendments of 1984, States will continue in the short term to invest a significant amount of their resources in operations that will only fully realize savings to the CSE program and the Federal government after FY 1987. These resources include new staff, cooperative agreements with State and local agencies, ADP equipment, etc. This has the effect of "front loading" costs on the program and masking any increase in cost effectiveness through FY 1987.

There was also a carryover of $78 million in unobligated funds in FY 1985. This carryover of funds reduced FY 1986 budget authority by that amount. Because the FY 1986 budget authority was reduced, it made the increase in budget authority in FY 1987 over FY 1986 that much larger.

Mr. Stokes: Last year, you reported that more than half of all mothers with support orders received less than the full amount or no payment at all. The average annual support amount received for both welfare and nonwelfare mothers was only $2,100. To what extent has this situation improved?

Mr. Ritchie: The average amount of child support for all women who received some payment increased from $2,110 in 1981 to

$2,340 in 1983. Adjusting this latter figure for inflation during this period, child support payments showed no significant change in real terms.

However, annual rate increases in collections are evident since FY 1982: 9% in FY 1982; 14% in FY 1983; 17% in FY 1984; 13% in FY 1985. Slight improvement, from 40% to 43%, has been seen between 1981 and 1983 in the percentage of women below the poverty level who were eligible for child support and had an agreement or award. Also improvement, from 72% to 76%, has been seen, between 1981 and 1983, in the percentage of women who were supposed to receive payments and those who actually received them.

States are developing child support guidelines in conformance with the 1984 Amendments. An interim report on the development of guidelines for establishing and updating child support orders concludes, "a comparison can be drawn between existing levels of court ordered support and economic findings on child rearing expenditures. This comparison suggests strongly that the implementation of formulas based on credible research should have the effect of significantly increasing the adequacy of child support awards. The levels of court-ordered support currently in effect apparently fall short of even the subsistence costs of child raising, and constitute only a minimal fraction of the normal levels of expenditures on children in average income households." The use of suggested support guidelines next year should significantly improve the amount of support collected.

Mr. Stokes: October 1985 was the deadline for State implementation of the 1984 Child Support Enforcement Amendments. What activities have the States undertaken to improve services to families in need of child support?

Mr. Ritchie: The 1984 Amendments provided that States were required to implement the mandatory practices on October 1, 1985 unless they have been exempted, they have waiver for a demonstration project under section 1115 of the Social Security Act, or the Secretary determines that State legislation is needed. In this last instance, States must implement the practices no later than the beginning of the fourth month beginning after the first session of the State legislature which ends on or after October 1, 1985. Thirty-four States have until sometime this fiscal year to enact the necessary legislation and begin using the mandated procedures and 18 States have even longer until sometime in FY 1987, based on State legislature session calendars.

The predominant activity in the States towards improving the Child Support Enforcement program has been the implementation of the Child Support Enforcement Amendments of 1984 (P.L. 98-378). As of March 1, 1986, 20 States have legislation addressing the eight mandatory enforcement techniques in the law, including

States having an exemption from passing legislation because a requirement is being implemented administratively via procedures or court rules. Forty-seven States have passed legislation in response to P.L. 98-378. Seven States have not passed legislation in response to the 1984 Amendments but previously had laws addressing some of the eight mandatory requirements. In regard to all the State child support legislation, the provisions may be incomplete to fully comply with Federal requirements under P.L. 98-378.

States gearing up to implement the 1984 Amendments have been investing in more cost effective resources and procedures, such as ADP equipment to assist with wage assignment, State tax offset and interstate enforcement, new staff, and cooperative agreements with State and local agencies.

Mr. Stokes: The 1986 Gramm-Rudman reductions resulted in a $33 million reduction in funds available for child support enforcement. What impact will this reduction have on child support enforcement activites?

Mr. Ritchie: It is too early to tell at this time what impact Gramm-Rudman-Hollings (GRH) will have on the State child support enforcement programs. For FY 1986, Federal financial participation (FFP) in State and local administrative costs and the enhanced matching for statewide, comprehensive ADP systems has been reduced slightly.

ITEM	Pre-GRH 10/85-02/86	GRH 03/86-09/86
FFP(admin)	70.00%	66.65%
FFP(ADP)	90.00%	85.69%

Previous experience in reducing the Federal deficit in child support enforcement has been related to reducing the Federal matching of State and local administrative costs and incentive payments for AFDC collections. State expenditures and program activities continued unabated when these reductions occurred. OCSE will monitor the actual expenditures in FY 1986 to determine whether States plan to reduce their level of services in the out years should Gramm-Rudman-Hollings provisions again be called into effect.

The sequestration as a result of Gramm-Rudman-Hollings on Federal administrative expenses has required some belt tightening and trimming. The sequestration was accomplished however with no significant diminishment of the agency's support of the program. Major impacts have been:

- A reduction in the number of contractual support activities.

- o More restrictive use of travel and training resources.
- o No reductions in force (RIFs) or furloughs of staff is anticipated.

Mr. Stokes: The FY 1987 Budget assumes that child support collection payments will increase from $2.674 billion in FY 1985 to $3.022 billion in FY 1986 and $3.271 billion FY 1987. What is the basis for these estimates?

Mr. Ritchie. These estimates are based on the projections provided to this office by the State child support agencies. These estimates are analyzed and revised by OCSE based on recent historical experience on a state-by-state basis, and knowledge of the impact of new legislation, such as the Child Support Enforcement Amendments of 1984.

Mr. Stokes: What is the rationale for your legislative proposal to reduce the Federal matching rate for State administrative costs from 70 percent to 66 percent by 1987, rather than by 1990 as called for under existing law?

Mr. Ritchie: The FY 1987 legislative proposal to reduce the Federal matching rate for State administrative costs moves program funding in the direction of rewarding results more quickly than the 1984 Amendments. Under the Amendments, the revised incentive structure emphasizes cost effective performance by providing a higher percentage incentive payment as cost effectiveness increases. States are eligible for incentive payments of 6 to 10 percent of both AFDC and non-AFDC collections. The more States collect in support in an effective manner, the more money they receive. The proposal to reduce the Federal match rate does not alter the open ended funding concept for State and local administrative expenses; but does help to lessen the direct Federal deficit in child support enforcement.

Under our proposal, a Federal matching rate of 66 percent for State and local CSE costs would be put in place beginning in FY 1987. This rate, previously endorsed by the Congress in the Child Support Enforcement Amendments of 1984, is approximately the rate which is already in place for FY 1986 as a result of sequestration under Gramm-Rudman-Hollings. Enactment now of this 66 percent rate would give greater emphasis to performance-based funding of State child support enforcement operations. Due to speedy implementation of the new child support laws and procedures mandated in the 1984 Amendments, this can be accomplished without disruption to support collection activities.

Mr. Stokes: Why should we reduce Federal reimbursement for staff and record keeping systems at the State level, at a time when States are being required to provide more services to those in need of child support?

Mr. Ritchie: To date, 33 States are involved in some phase of development for Statewide, comprehensive system at the enhanced 90 percent funding rate. Several States have achieved short-term payback and expect long-term benefits measurable in dollars.

The FY 1987 proposal will assure that limited Federal and State fiscal resources are spent as effectively as possible. The enhanced Federal matching for statewide, comprehensive data processing and information retrieval systems would be gradually phased down so that it would equal, by FY 1990, to the matching rate for administrative expenses under the program. This gradual phase down of the enhanced rate will, on the one hand, encourage all States to expedite their systems development and installation, while affording adequate time to complete the task in the case of those States which have, to date, not made significant progress in this regard. Combined with similar amendments which will be proposed for the AFDC, Medicaid and Food Stamp programs, this provision will make Federal matching rates for information systems consistent across these three welfare programs by FY 1990.

CHILD SUPPORT ENFORCEMENT

Mr. Hoyer: Mr. Ritchie, in my district the sheriff's office has conducted several sweeps to bring in delinquent parents. In your opinion, are these sweeps effective enforcement tools?

Mr. Ritchie: Arrest sweeps by police officials and sheriff's departments have proven beneficial in collecting child support from delinquent absent parents. The effectiveness of this practice, however, is going to vary from one jurisdiction to another. These types of actions frequently garner publicity which can have both beneficial and detrimental impact on the program depending on the accuracy of the records for the subject cases and the manner in which the arrest sweeps are carried out.

Under the 1984 Amendments, all States must implement and use wage withholding when the child support arrearage equals 30 days of support. Wage withholding as an enforcement tool is very effective and efficient. The enforcement technique provides for regular payments at little cost and no bother to the obligated absent parent, while preventing the accumulation of large arrearages.

Mr. Hoyer: Other than the Federal income tax refund offset, what is the most effective enforcement technique?

Mr. Ritchie: Mandatory wage withholding is the most effective enforcement technique. The procedure offers regular payments at very minimal cost and bother to the employee absent parent. Employers may combine payments for individuals into one payment to the child support agency, including a list identifying the payors and respective amounts. Implementation of wage withholding when arrearages equal 30 days of delinquent support prevents the accumulation of large arrearages which are difficult to collect.

Mr. Hoyer: What are you doing to encourage income withholding?

Mr. Ritchie: We have developed and disseminated handbooks for employers and State child support agencies for implementing wage withholding. We are cooperating with the National Governors' Association in the development of a wage withholding implementation guide. OCSE is studying electronic funds transfer projects. Regional office staff have worked with employer groups to encourage wage withholding. I have also personally addressed employer/association groups in this important effort.

OCSE has supported the development of beneficial State legislation, through a contract with the National Conference of State Legislatures (NCSL) and judicial seminars concerning child support enforcement through a contract with the National Council of Juvenile and Family Court Judges (NCJFCJ). A joint OCSE/Amerian Bar Association (ABA) effort produced a model interstate wage withholding statute which has been distributed to States. Training of child support enforcement personnel in State programs has been supported through a contract with the National Institute of Child Support Enforcement (NICSE), which provides training courses around the country and presents lectures on an variety of child support topics, including enforcement techniques.

Mr. Hoyer: Has the "Handbook on Child Support Enforcement" been distributed to congressional offices? I would appreciate receiving several copies.

Mr. Ritchie: The Secretary sent a copy to each member of Congress as part of an extensive package on the program and the 1984 Amendments. We continuously receive requests from congressman for additional copies of the Handbook and are happy to provide the information. Several copies of the Handbook have been sent to your office as requested.

MARYLAND STATE EXPERIENCE

Mr. Hoyer: On page 2 of your statement and in your justification you discuss the efforts made by various states to improve enforcement. What can you tell me about the effectiveness of the Maryland program?

Mr. Ritchie: For FY 1985, the State of Maryland Child Support Enforcement program collected $3.86 for every $1.00 expended, while the national average was $3.31 for each $1.00. Maryland's program is slightly below the national average in AFDC collections to total expenditures, but ranks in the top seven for non-AFDC collections to total expenditures.

STATE AND ADMINISTRATIVE COSTS

Mr. Hoyer: Mr. Ritchie on the one hand two of your priorities for FY86 and FY87 are to strengthen program enforcement and improve state automated systems at the same time, however, you're reducing the Federal match for State and local administrative costs and for ADP Federal match. How will you be able to accomplish both objectives?

Mr. Ritchie: We believe that putting more emphasis on performance by emphasizing incentives rather than generous reimbursement of costs, which is not related to performance, would improve and strengthen the program. The 1984 Amendments revised the incentive structure for the program, emphasizing cost effective performance by providing a higher percentage incentive as cost effectiveness increases. States are eligible for incentive payments of 6 to 10 percent of both AFDC and non-AFDC collections. The more a State collects in support in an effective manner, the more money they receive. The incentive structure encourages States to increase child support collections, but also to do so in a efficient manner.

Under our proposal, a Federal matching rate of 66 percent for State and local child support enforcement costs would be put in place beginning in FY 1987. This rate, previously endorsed by the Congress in the Child Support Enforcement Amendments of 1984, is approximately the rate which is already in place for FY 1986 as a result of sequestration under Gramm-Rudman-Hollings. Enactment now of this 66 percent rate would give greater emphasis to performance-based funding of State child support enforcement operations. Due to speedy implementation of the new child support enforcement laws and procedures mandated in the 1984 Amendments, this can be accomplished without disruption to support collection activities.

Regarding the ADP Federal match, to date 33 States are involved in some phase of development for statewide, comprehensive system at the enhanced 90 percent funding rate. Several States have achieved short-term payback and expect long-term benefits measurable in dollars.

The FY 1987 proposal will assure that limited Federal and State fiscal resources are spent as effectively as possible. The enhanced Federal matching for data processing and information retrieval systems would be gradually phased down so that it would equal, by FY 1990, to the matching rate for administrative expenses under the program. This gradual phase down of the enhanced rates will, on the one hand, encourage all States to expedite their systems development and installation, while affording adequate time to complete the task in the case of those States which have, to date, not made significant progress in this regard. Combined with similar amendments which will be proposed for the AFDC, Medicaid and Food Stamp programs, this provision will make Federal policy on matching for information systems consistent across these three welfare programs by FY 1990.

Mr. Hoyer: What effect will these changes have on States?

Mr. Ritchie: We anticipate States will continue their vigorous implementation of the Child Support Enforcement Amendments of 1984, striving to improve the efficiency and effectiveness of their programs. FY 1987 legislative proposals move program funding even more in the direction of rewarding results, not just funds spent on administration. After several years of preliminary ADP planning on the part of States, FY 1986 and FY 1987 represent years in which States implement those plans.

PUBLIC INFORMATION

Mr. Hoyer: Mr. Ritchie, my offices have received many phone calls about the Child Support Amendments of 1984. What is your office doing either in concert with State offices or on your own to publicize the requirements and rights included in these amendments?

Mr. Ritchie: We have developed and published numerous public affairs materials. Most requested is the "Handbook on Child Support Enforcement." A handbook for employers and materials for child support agencies in implementing wage withholding have been distributed. We will also be publishing shortly a document which summarizes the reports of the States' commissions on child support enforcement. Many State commissions held public hearings and provided the general public valuable information. We have prepared and made available to State child support agencies public service announcements for television and radio. In addition, personal appearances by executive level staff of OCSE, including myself, before interest groups, employer groups and associations have been made in an effort to publicize the program and the services we provide.

At the State level, direct assistance to expedite their work has included:

-- key State decisionmakers have been briefed on the legislation and its requirements by the Office of Child Support Enforcement staff.

-- a joint OCSE/National Conference of State Legislatures (NCSL) effort recently produced and distributed a State by State analysis of changes still needed in existing State law to satisfy P.L. 98-378.

-- a joint OCSE/American Bar Association (ABA) effort produced a model interstate wage withholding statute which has been distributed to States

-- a joint OCSE/NCSL effort resulted in a compilation of exemplary State legislation related to wage withholding, State income tax offsets, and expedited legal processes. These have all been distributed.

-- a joint OCSE/NCSL conference was held to discuss children in poverty: the effect of non-support

-- OCSE is funding a project with the National Governors' Association (NGA) regarding a series of seminars and dissemination of materials on relevant child support enforcement issues aimed at governors and their aides, top level State government managers, etc. Such issues as automation and linkages with other family service programs are to be addressed.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

SOCIAL SECURITY ADMINISTRATION

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	Positions	Amount	No.
Payments to Social Security Trust Funds.........	---	$500,555,000	1
Special Benefits for Disabled Coal Miners.........	180	$963,437,000	21
Supplemental Security Income Program.....................	---	$10,569,318,000	39
Assistance Payments Program...	635	$8,203,232,000	65
Low Income Home Energy Assistance Program...........	35	$2,100,000,000	121
Limitation on Administrative Expenses.....................	71,832	$4,011,373,000	139

DEPARTMENT OF HEALTH AND HUMAN SERVICES

SOCIAL SECURITY ADMINISTRATION

Payments to Social Security Trust Funds

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SOCIAL SECURITY ADMINISTRATION

Payments to Social Security Trust Funds

For payment to the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds, as provided under sections 201(m), 217(g), 228(g), 229(b), and 1131(b)(2) of the Social Security Act and section 152 of Public Law 98-21, [$497,008,000] *$500,555,000. (Department of Health and Human Services Appropriation Act, 1986.)*

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Payments to Social Security Trust Funds

Amounts Available for Obligation

	1985 Actual	1986 Current Estimate	1987 Estimate
Appropriation annual.............	$512,722,000	$497,008,000	$500,555,000
Permanent............	6,512,536,000	5,400,000,000	5,862,000,000
Enacted supplemental........	3,500,000,000	---	---
Subtotal, adjusted appropriation.....	$10,525,258,000	$5,897,008,000	$6,362,555,000
Unobligated balance start of year.......	---	3,500,000,000	---
Unobligated balance end of year.........	-3,500,000,000	---	---
Unobligated balance lapsing............	-188,000	-280,000,000	---
Total obligations..	$7,025,070,000	$9,117,008,000	$6,362,555,000

Summary of Changes

1986 Annual appropriation....................	$497,008,000
19 Request..................................	500,555,000
Net change..............................	+$3,547,000

	1986 Base	Change from Base
Increases:		
Military service credits--post-1956 credits reflect current estimates of the level of military personnel on duty, adjustments for actual data on 1983 credits and the average military wage for 1987.....	$356,000,000	+$12,917,000
Unnegotiated checks--reflects current estimates for FY 1987 and an adjustment for FY 1984 actual.............................	50,000,000	+11,500,000
Total increases.................		+$24,417,000
Decreases:		
Built-in:		
Special payments for certain uninsured persons--reflects a decreasing beneficiary population.........................	$90,264,000	-$20,870,000
Net change......................		+$3,547,000

Payments to Social Security Trust Funds

Budget Authority by Activity
(Budget authority in thousands)

	1985 Actual	1986 Appropriation	1986 Current Estimate	1987 Estimate
Current Authority:				
Military service credits....	$3,857,000	$356,000	$356,000	$368,917
(Obligations)...............	($357,000)	($3,576,000)	($3,576,000)	($368,917)
Special payments for certain uninsured persons.....	104,978	90,264	90,264	69,394
(Obligations)...............	(104,978)	(90,264)	(90,264)	(69,394)
Pension reform..............	744	744	744	744
(Obligations)...............	(556)	(744)	(744)	(744)
Unnegotiated checks.........	50,000	50,000	50,000	61,500
(Obligations)...............	(50,000)	(50,000)	(50,000)	(61,500)
Subtotal, current authority................	$4,012,722	$497,008	$497,008	$500,555
(Obligations)...........	($512,534)	($3,717,008)	($3,717,008)	($500,555)
Permanent Authority:				
FICA and SECA tax credits...	$3,144,055	$1,721,000	$1,721,000	$1,665,000
(Obligations)...............	($3,144,055)	($1,721,000)	($1,721,000)	($1,665,000)
Income tax equivalents, benefits...................	3,290,906	3,596,000	3,596,000	4,109,000
(Obligations)...............	(3,290,906)	(3,596,000)	(3,596,000)	(4,109,000)
Income tax equivalents, nonresident aliens.........	77,575	83,000	83,000	88,000
(Obligations)...............	(77,575)	(83,000)	(83,000)	(88,000)
Subtotal, permanent authority...............	$6,512,536	$5,400,000	$5,400,000	$5,862,000
(Obligations)............	($6,512,536)	($5,400,000)	($5,400,000)	($5,862,000)
Total, budget authority..	$10,525,258	$5,897,008	$5,897,008	$6,362,555
(Obligations)............	($7,025,070)	($9,117,008)	($9,117,008)	($6,362,555)

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Payments to Social Security Trust Funds

Budget Authority by Object

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Insurance claims and indemnities...............	$9,116,264,000	$6,361,811,000	-$2,754,453,000
Other services.............	744,000	744,000	---
Total, budget authority by object..............	$9,117,008,000	$6,362,555,000	-$2,754,453,000

Payments to Social Security Trust Funds

Significant Items in House and Senate Appropriation Committee Reports

Item

FY 1986 House Report	Action Taken or to be Taken
In its report (Report No. 99-209), the Committee noted that the fiscal year 1985 supplemental appropriation reflected a one-time indefinite appropriation of "not to exceed" $3.5 billion. This payment represented an adjustment of the general fund transfer for pre-1957 military service credits as required by the 1983 Social Security amendments (Public Law 98-21). At the time of Committee action, the exact amount of the transfer had not yet been determined. The Committee asked the Department to notify it as soon as possible of the transfer once the actuarial calculations are completed.	The actuarial determination was completed in November 1985. It provided for a transfer of $3,220,000,000 from the general fund of the Treasury to the OASDI trust funds. These amounts were transferred to the trust funds on December 30, 1985. The Committees have been notified.
FY 1986 Senate Report In its report, the Committee (Report No. 99-151) noted that the Department had not yet determined what portion of the supplemental is needed as a general fund transfer adjustment required by law with respect to pre-1957 military service credits. The Department was asked to notify the Committee once this determination was made.	

Payments to Social Security Trust Funds

Authorizing Legislation

	1986 Amount Authorized	1986 Current Estimate	1987 Amount Authorized	1987 Budget Request
Payments to Social Security Trust Funds (sections 201(m), 217(g), 228(g), 229(b) and 1131(b)(2) of the Social Security Act and section 152 of P.L. 98-21)............	Indefinite	$497,008,000	Indefinite	$500,555,000
(Sections 121, 123 and 124 of P.L. 98-21)....	Permanent Indefinite	$5,400,000,000	Permanent Indefinite	$5,862,000,000

Payments to Social Security Trust Funds

Table of Estimates and Appropriations [1]

Fiscal Year	Budget Estimate To Congress	House Allowance	Senate Allowance	Appropriation
1978	$7,955,144,000	$7,955,144,000	$7,955,144,000	$7,955,144,000[2]
1979	760,774,000	760,774,000	760,774,000	760,774,000
1980	676,933,000	676,933,000	676,933,000	676,933,000
1981	673,225,000	672,225,000		672,225,000
1982	848,698,000	844,698,000	844,698,000	843,658,000
1983	855,213,000	855,213,000	2,155,213,000	2,155,213,000[3]
1984	521,258,000[4]	448,583,000	521,258,000	521,258,000
1985	512,722,000	512,722,000	512,722,000	512,722,000
1985 Supplemental	3,500,000,000[5]	3,500,000,000	3,500,000,000	3,500,000,000
1986	497,008,000	497,008,000	497,008,000	497,008,000
1987	500,555,000			

1/ Excludes budget authority provided in legislation outside the normal (Appropriations Committee) appropriations process. The Social Security Amendments of 1983 (section 151) authorized and appropriated a general fund transfer of $19,735,000,000 in FY 1983 to reimburse the OASDI trust funds for:

--the present actuarial value of all future benefits and administrative costs arising from the granting of gratuitous credits for pre-1957 military service through September 30, 2015; and

--the additional amount which would have been appropriated to the trust funds if military service wage credits granted for post-1956 service for the period from 1957-1983 had constituted wages.

Provision was also made for a one-time adjustment to the lump sum transfer for post-1956 military service credits within 1 year after the original transfer. This adjustment resulted in a $2,429,000,000 general fund transfer which was made in FY 1984.

The 1983 amendments also permanently appropriated to the Social Security trust funds all revenues from Federal income taxation of Social Security benefits, and amounts equal to the value of FICA and SECA tax credits granted through 1989.

2/ Includes Federal payments for supplementary medical insurance, hospital insurance for the uninsured and military service credits for hospital insurance that subsequently were transferred to the Health Care Financing dministration.

3/ P.L. 98-63 (Making supplemental appropriations for the fiscal year ending September 30, 1983) appropriated $1,300,000,000 to reimburse the trust funds for past unnegotiated benefit checks under authority provided by the Social Security Amendments of 1983 (section 152).

4/ This represents the FY 1984 request as amended in September 1983 to reflect the effects of the 1983 Social Security amendments. The amendment reduced the original request by $317,225,000.

5/ The supplemental request for FY 1985 was an estimate of the maximum amount required for the first quinquennial adjustment of the 1983 lump sum payment for pre-1957 military service credits authorized by the Social Security Amendments of 1983 (section 151). The appropriation was "not to exceed $3,500,000,000," and actual obligations were $3,220,000,000.

Payments to Social Security Trust Funds

Justification

Account Summary

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Appropriation request................	$497,008,000	$500,555,000	+$3,547,000

General Statement

This account includes several Federal fund payments to the Social Security trust funds for a variety of distinct purposes. Four of these payments are authorized to be appropriated annually. The others are funded by permanent indefinite appropriations.

This request covers only the four Federal fund payments to the Social Security trust funds which are funded through the annual appropriations process. The four payments, totaling $500,555,000, are to put the trust funds in the same financial position they would have been in had they not borne the cost of these benefits or administrative expenses which are chargeable to Federal funds. The four payments included in this appropriation request are for: military service credits, special payments to certain uninsured persons, pension reform and unnegotiated checks.

Amounts appropriated to this account as permanent indefinite authority that are not addressed in this justification include receipts from Federal income taxation of Social Security benefits and the value of tax credits granted for a portion of SECA taxes.

The Social Security Amendments of 1983 provided for the granting of Federal Insurance Contribution Act (FICA) and Self-Employment Insurance Contribution Act (SECA) tax credits to individuals. The tax credits are granted at the time the individual is taxed and are funded by the general funds of the Treasury. The amendments provided for permanent appropriations for these credits. The FICA tax credit was valid only for wages earned in calendar year 1984. There are no FICA tax credits after 1985. The estimated payment for SECA credits is $1.721 billion for FY 1986 and $1.665 billion for FY 1987.

The Social Security Amendments of 1983 also provided for taxation of up to one-half of Social Security benefits in excess of certain income thresholds. The taxes are collected as income taxes by the IRS. Section 121 of P.L. 98-21 provides for quarterly transfers based on the estimated aggregate increase in tax liabilities derived by taxing benefits of U.S. citizens and aliens, with adjustments made as actual receipts are known. Beginning with the third quarter of FY 1986 these payments will flow through the Payments to Social Security Trust Funds account. The estimated income from these taxes is $[illegible].596 billion in FY 1986 and $4.109 billion in FY 1987 from U.S. citizens, $83 million in FY 1986 and $88 million in FY 1987 from aliens. These appropriations are permanent and indefinite and are not included in this appropriation request.

Program Accomplishments

Through the activities funded from the appropriation request, the Social Security trust funds are reimbursed for amendments providing coverage to persons too elderly to have worked long enough after passage of the Act to have become entitled to benefits and to veterans who served prior to coverage of military pay in 1957. In addition, payment is made for the taxes due for the granting of deemed military wage credits. Deemed military wage credits are granted in recognition of the fact that the covered basic pay is augmented by various allowances, such as room and board, that are part of the actual remuneration for services of members of the uniformed services. The payment for pension reform activity reimburses the OASI trust fund for costs of maintaining records of workers' vested pension rights. These payments from general funds restore the trust funds to the position in which they would have been in the absence of these provisions. The payment for unnegotiated checks reimburses the trust funds with interest for those benefit checks that remain uncashed after 6 months. The table below shows payments by activity made to the trust funds from annual appropriations during the period FY 1982-FY 1986 ($ in thousands):

	FY 1982 Actual	FY 1983 Actual	FY 1984 Actual	FY 1985 Actual	FY 1986 Estimate
Military service credits 1/........	$702,543	$715,807	$346,000	$357,000	$356,000
Special payments for certain uninsured persons...........	140,407	138,662	124,514	104,978	90,264
Pension reform.....	574	598	180	481	744
Unnegotiated checks............	---	540,000	24,000	211,900 2/	50,000
Total..........	$843,524	$1,395,067	$494,694	$674,359	$497,008

1/ Excludes general fund transfer of $19,735,000,000 in FY 1983, $2,429,000,000 in FY 1984, and $3,220,000,000 in FY 1986 for military service credits pursuant to section 151 of the Social Security Amendments of 1983.

2/ Includes $161,900,000 for adjustment of FY 1983 and FY 1984 unnegotiated checks.

Payments to Social Security Trust Funds

Military Service Credits

Authorizing Legislation: Sections 217(g) and 229(b) of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority....	$356,000,000	$368,917,000	+$12,917,000

Purpose and Method of Operation

The purpose of this payment is to reimburse the Federal old-age and survivors insurance (OASI) and disability insurance (DI) trust funds for the costs to the trust funds of granting noncontributory credit for military service. The Social Security Act deals separately with two periods of military service. Section 217(g) addresses pre-1957 military service and section 229(b) deals with post-1956 military service.

A. Pre-1957 Military Service: The 1946 Social Security amendment provided for payment of benefits to World War II veterans and their survivors based upon noncontributory wage credits of $160 for each month of the veteran's active military service. Subsequent amendments extended the period for which these credits were granted through December 1956. For that period, the Social Security Act did not require contributions to the trust funds based on the wages of individuals in the military service.

To finance the additional costs incurred in paying benefits which are based on periods of military service before 1957 for which no contributions were made, the Social Security Act provides for reimbursement to the OASI and the DI trust funds from the general fund of the Treasury. Section 217(g), added by the Social Security Amendments of 1965, established a 50-year period for reimbursement. The Secretary of Health and Human Services was instructed to determine by September 1965 (and each fifth September thereafter, ending September 2010) the amount of reimbursement in equal annual installments necessary to place the trust funds in the same position on September 30, 2015 that they would have been in, if noncontributory military service credits had not been provided. After September 30, 2015 annual appropriations for current costs are authorized.

The Social Security Amendments of 1983 modified section 217(g) to reimburse the trust funds in a lump sum for the present value of all future benefits arising from the gratuitous credits granted for military service before 1957. This provision directed the Secretary of Treasury to transfer the pre-1957 wage credit lump sum to the trust funds within 30 days after enactment of the legislation. This lump sum settlement, which covered periods through September 30, 2015, is subject to adjustment every fifth year beginning in 1985. The Secretary of Health and Human Services will determine these adjustments on the basis of benefits and administrative costs actually paid under section 217(g) and relevant actuarial assumptions in the Social Security Trustees Report. Under the 1983 amendments, the only costs of pre-1957 military service credits to this appropriation will be any additional payments due as a result of these adjustment determinations. In FY 1985 a supplemental appropriation for not to exceed $3.5 billion was enacted for this purpose and a lump sum adjustment of $3.220 billion was made on December 30, 1985. There is no further request for pre-1957 military service credits.

The $3.2 billion transfer was distributed by trust fund as follows:

OASI trust fund..........................	$2,203,000,000
DI trust fund............................	1,017,000,000
Total..............................	$3,220,000,000

B. Post-1956 Military Service: The Social Security Amendments of 1967 added section 229(b) of the Social Security Act, affecting credit for military service performed after December 1967. The pay of a person in the uniformed services after December 1967 is deemed to be up to $300 more than his basic pay in each calendar quarter, in order to cover the value of wages-in-kind, such as food, shelter and medical services. The Social Security Amendments of 1972 amended the law to provide noncontributory wage credits of $300 per quarter for military service performed after 1956. The Social Security Amendments of 1977 further amended the law to provide noncontributory wage credits of $100 for each $300 of actual wages earned up to a maximum credit of $1,200 for any calendar year after 1977.

The Social Security Amendments of 1983 also modified section 229(b) to require that the trust funds be paid on a taxes-due instead of a benefits-paid basis for post-1956 military service deemed wages beginning in calendar year 1984. The 1983 amendments authorized a lump sum payment to put the trust funds in the same financial position they would have been in if the reimbursement to the trust funds for post-1956 military service credits for prior years (1957-1983) had been financed on this new basis. For calendar year 1984 and years thereafter, the trust funds will be reimbursed annually on July 1 for the OASDI employer-employee taxes on the post-1956 wage credits for military service for that same calendar year. Proper adjustments will be made in amounts authorized to be appropriated to the extent prior estimates were in excess or less than actual wages deemed to be paid.

Rationale for the Budget Request

For FY 1987 the budget request is $368,917,000 for reimbursement to the OASDI trust funds for post-1956 military service credits under section 229(b) of the Social Security Act. This is the amount of estimated employee-employer OASDI payroll taxes for calendar year 1987 that would be paid on the deemed wage credits if the credits were treated as covered wages, plus an adjustment for actual data on the 1983 credits.

The total payment of $368,917,000 will be distributed by trust funds as follows:

	Estimate for 1987 Credits	Adj. for 1983 Actual Data	Total Transfer
OASI trust fund............	$332,300,000	+$16,091,000	$348,391,000
DI trust fund..............	32,000,000	-11,474,000	20,526,000
Total..................	$364,300,000	+$4,617,000	$368,917,000

Payments to Social Security Trust Funds

Special Payments to Certain Uninsured Persons

Authorizing Legislation: Section 228(g) of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority..................	$90,264,000	$69,394,000	-$20,870,000

Purpose and Method of Operation

The purpose of this payment is to reimburse the Federal old-age and survivors insurance (OASI) trust fund for the costs of special payments made to certain persons who were not insured for regular Social Security benefits.

Benefits were authorized in a 1966 amendment to the Social Security Act (the Prouty Amendment) providing for special payments to persons aged 72 and over who were too elderly to have worked long enough after passage of the Act to be insured for Social Security benefits. To be eligible under the Prouty Amendment, an individual must have attained age 72 before 1968, or meet certain minimal insured status requirements if he attained age 72 in 1968 or later. The benefit was first paid in FY 1967 and amounted to $35 a month for an individual, plus $17.50 for an eligible spouse. Benefit increases were legislated periodically and in 1974 benefit increases were tied to cost-of-living adjustments granted to OASI beneficiaries. By 1985, the benefit amount had increased to $134.40. For individuals receiving a government pension, payments under a federally-aided public assistance program or payments under the supplemental security income program, Prouty benefits are reduced or withheld, as required by law. The number of persons receiving benefits under the Prouty Amendment reached a peak of 729,000 in December 1967, and since then, has been decreasing gradually as the size of the aged population meeting the eligibility requirements decreases. As of September 30, 1985, there were 33,000 persons receiving benefits under this program, as compared to 43,000 on September 30, 1984.

Section 228(b) of the Social Security Act was amended by the Social Security Amendments of 1983 providing for equal payment of Special Age-72 benefit payments to individuals who are married and who both qualify for Prouty benefits under section 228. Prior to this amendment the wife received only half the amount that the husband received even though each spouse had to meet the same eligibility requirements as if unmarried. By providing each spouse the full benefit payable to a single individual, the provision increases benefits for couples where both husband and wife qualify for Prouty benefits.

Section 228(g) of the Social Security Act, as amended, authorizes an annual appropriation of Federal funds to reimburse the OASI trust fund (with interest) for special monthly benefits paid during the second preceding fiscal year and all prior years to persons with fewer than three quarters of coverage. Special payments made to persons with three or more quarters of coverage are funded from the trust funds and not from general revenues. Of the total number of Prouty beneficiaries, approximately 96 percent (32,000 out of 33,000 receiving benefits on September 30, 1985) received benefits based on fewer than three quarters of coverage. The first authorized general fund appropriation was for the year ending June 30, 1969, for payments made in the year ending June 30, 1967. Similar appropriations are authorized for each year thereafter.

Rationale for the Budget Request

The FY 1987 request is for payment of $69,394,000 to the Federal old-age and survivors insurance trust fund for program costs incurred in FY 1985. Program costs include benefit payments actually made, related administrative expenses for establishing entitlement to such benefits and maintaining the beneficiary roll, and interest lost to the trust fund. The FY 1987 request is less than the FY 1986 amount as the result of a continually decreasing beneficiary population.

The estimate of $69,394,000 is composed of:

Reimbursement for FY 1985 program costs:

a. Benefit payments....................	$57,397,000
b. Administrative costs................	459,000
c. Interest............................	11,538,000
Total, FY 1985 program costs......	$69,394,000

Payments to Social Security Trust Funds

Pension Reform

Authorizing Legislation: Section 1131(b)(2) of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority.................	$744,000	$744,000	-0-

Purpose and Method of Operation

The purpose of this payment is to reimburse the Federal old-age and survivors insurance trust fund for the cost of certain pension reform activities chargeable to Federal funds.

The Employee Retirement Income Security Act of 1974, P.L. 93-406 (Pension Reform Act), established section 1131 of the Social Security Act. This section requires the Secretary of Health and Human Services to furnish information regarding deferred vested pension rights to pension plan participants (and their dependents or survivors), either upon request or automatically upon application for retirement, survivors, or disability insurance benefits. Section 1131(b)(1) states that these pension reform administrative expenses are deemed to be expenses incurred for the administration of the title II trust fund programs.

Section 1131(b)(2) authorizes an annual appropriation of Federal funds to reimburse the OASI trust fund for pension reform administrative expenses resulting from the enactment of section 1131 and chargeable to Federal funds. SSA began to incur pension reform administrative expenses in FY 1977.

Rationale for the Budget Request

The Social Security Administration's request for FY 1987 resources needed to carry out its responsibilities under the Pension Reform Act amounts to $744,000. This level of funding will support 30 workyears of effort, and is the same as the level estimated for FY 1986.

Although the cost of supplying vested pension rights information and processing pension fund administrator changes is included in the limitation on administrative expenses, it is chargeable by law ultimately to Federal funds. Thus, the Federal old-age and survivors insurance trust fund advances the administrative expenses as needed, and is subsequently reimbursed for these costs, including interest if appropriate, via this appropriation.

Payments to Social Security Trust Funds

Unnegotiated Checks

Authorizing Legislation: Section 201(m) of the Social Security Act and section 152 of P.L. 98-21.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority.................	$50,000,000	$61,500,000	+$11,500,000

Purpose and Method of Operation

The purpose of this payment is to reimburse the Federal old-age and survivors insurance (OASI) and disability insurance (DI) trust funds for the value of benefit checks that remain uncashed after 6 months, plus interest.

This activity was established to fund the requirement in section 152 of the Social Security Amendments of 1983. Section 152 of the Social Security Amendments of 1983 dealt with the issue of limited negotiability of OASDI benefit checks in the following manner:

- It provided for a lump sum payment to the OASDI trust funds from the general funds representing the value of uncashed checks which have been issued in the past, plus appropriate amounts of interest.
- It requires the Treasury Department to implement procedures under which (1) Treasury will make it possible to distinguish OASDI checks from other Government checks; and (2) the trust funds would be credited on a regular basis with an amount equal to the value of all OASDI benefit checks uncashed after 6 months, plus interest. Until these procedures are implemented the ongoing monthly transfer will be based on joint HHS/Treasury estimates of additional checks becoming 6 months old.
- It authorizes annual appropriations to fund these general fund reimbursements to the Social Security trust funds.

The 1983 amendments require that the lump sum payment be based on a joint Treasury/HHS determination. During FY 1983 SSA and Treasury agreed to (1) conduct a joint study to determine the final transfer amount and (2) make the transfer mandated by the amendments based on the best available data and make any adjustments to the transfer when the joint study is completed. A transfer of $540,000,000 was made in FY 1983 and a transfer of $24,000,000 was made in FY 1984. The joint study has been completed. HHS and Treasury agreed on the amount of adjustments for FY 1983 and FY 1984, as well as a preliminary transfer for FY 1985 based on the study results and recent Treasury data on Governmentwide unnegotiated checks. The additional prior year requirements arising from these determinations were funded from available prior year unobligated balances. Since the FY 1984 determination exceeded available unobligated FY 1984 balances by $14.5 million, the balance was partially funded from the FY 1985 appropriation. The table below illustrates the amount of these subsequent determinations and the source of funding:

($ in millions)

	FY 1983	FY 1984	FY 1985
Initial (preliminary) determinations	$540.0	$24.0	---
Subsequent determinations	675.9	64.3	$47.2
Additional funding required	$135.9	$40.3	$47.2
Source of Funding for Additional Requirements:			
FY 1983 Appropriation	$135.9	---	---
FY 1984 Appropriation	---	$26.0	---
FY 1985 Appropriation	---	$2.8	$47.2
FY 1986 Appropriation	---	$11.5	---

It will also be necessary to use $11,500,000 from the FY 1986 appropriation to completely fund the final determination for FY 1984 unnegotiated checks. Since the FY 1986 determination is still estimated at $50 million, we have included an additional $11.5 million in the FY 1987 request in order to fully reimburse the trust funds for estimated FY 1986 requirements.

Ongoing annual transfers are to be based on the Treasury Department's system for identifying individual, uncashed, OASDI benefit checks. Until that system is developed and in place, the Secretaries of Treasury and HHS will use the results of the joint study and recent Treasury data on Governmentwide unnegotiated check activity to determine the annual transfers.

Rationale for the Budget Request

The FY 1987 request is for $61,500,000 to reimburse the OASDI trust funds for the value of unnegotiated checks during FY 1986 and FY 1987.

	FY 1987 Estimate	FY 1986 Remaining Liability	Total Request
OASI trust fund	$44,000,000	$11,500,000	$55,500,000
DI trust fund	6,000,000	---	6,000,000
Total	$50,000,000	$11,500,000	$61,500,000

DEPARTMENT OF HEALTH AND HUMAN SERVICES

SOCIAL SECURITY ADMINISTRATION

Special Benefits for Disabled Coal Miners

FY 1987 Budget Page No.

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SOCIAL SECURITY ADMINISTRATION

Special Benefits for Disabled Coal Miners

For carrying out title IV of the Federal Mine Safety and Health Act of 1977, including the payment of travel expenses on an actual cost or commuted basis, to an individual, for travel incident to medical examinations, and *when travel of more than 75 miles is required,* 1/ to parties, their representatives and all reasonably necessary witnesses for travel within the United States, Puerto Rico, and the Virgin Islands, to reconsideration interviews and to proceedings before administrative law judges, [$727,908,000] *$693,437,000* to remain available until [expended.] *expended: Provided, That monthly benefits when changed shall be paid consistent with section 215(g) of the Social Security Act* 2/. For making, after July 31, of the current fiscal year, benefit payments to individuals under title IV of the Federal Mine Safety and Health Act of 1977, for costs incurred in the current fiscal year, such amounts as may be necessary.

For making benefit payments under title IV of the Federal Mine Safety and Health Act of 1977 for the first quarter of fiscal year [1987, $270,000,000] *1988, $252,450,000,* to remain available until expended. *(Department of Health and Human Services Appropriation Act, 1986; legislative action required.)*

Explanation of Language Changes

1/ This technical change clarifies SSA policy which limits reimbursement to claimants, their representatives and witnesses, for travel to reconsideration interviews and to proceedings before an administrative law judge, to occasions when travel of more than 75 miles is required. This change is consistent with law and regulations governing travel reimbursements to applicants for title II benefits.

2/ This change would require black lung monthly benefit payments to be rounded down to the nearest dollar restoring the consistency with the manner in which title II benefits are computed. The effect of this language change on black lung benefit payments is a savings of $1,000,000.

Special Benefits for Disabled Coal Miners

Language Analysis

Language Provision	Explanation
"...including the payment of travel expenses on an actual cost or commuted basis, to an individual, for travel incident to medical examinations, and *when travel of more than 75 miles is required,* to parties, their representatives, and all reasonably necessary witnesses for travel within the United States, Puerto Rico, and the Virgin Islands, to reconsideration interviews and to proceedings before administrative law judges..."	Authorizing legislation did not specify whether or not travel incident to medical examinations or travel for claimants, their representatives, and witnesses to attend reconsideration interviews and hearings was a necessary administrative expense. This provision, which permits the payment of these travel expenses for occasions requiring travel of more than 75 miles, reduces financial hardship to claimants and is similar to language which was included in the Disability Amendments of 1980 for the Social Security trust fund programs.
"...Provided, That monthly benefits when changed shall be paid consistent with section 215(g) of the Social Security Act."	This language provides the authority needed to restore the consistency in computing black lung benefit payments with title II and title XVI benefits.
"For making, after July 31 of the current fiscal year, benefit payments to individuals under title IV of the Federal Mine Safety and Health Act of 1977, for costs incurred in the current fiscal year, such amounts as may be necessary."	This language provides indefinite authority to finance any shortfall in the definite appropriation for benefit costs during the last 2 months of a fiscal year. This replaces the practice of borrowing from subsequent appropriations.
"For making benefit payments under title IV of the Federal Mine Safety and Health Act of 1977 for the first quarter of fiscal year [1987, $270,000,000] *1988, $252,450,000* to remain available until expended."	This language provides authority to finance benefit payments for the first quarter of FY 1988. This provision ensures that beneficiaries will continue to receive benefits during the first quarter of FY 1988 in the event of temporary delay in enactment of appropriations.

Special Benefits for Disabled Coal Miners

Amounts Available for Obligation 1/

	1985 Actual	1986 Current Estimate	1987 Estimate	1988 Estimate
Appropriation				
Annual (definite).......	$1,024,131,000	$997,908,000	$963,437,000	$252,450,000
Regular appropriation...	(1,024,131,000)	(727,908,000)	(693,437,000)	---
First quarter advance appropriation..........	---	(270,000,000)	(270,000,000)	(252,450,000)
Sequester order.........	---	-280,000	---	---
Subtotal, adjusted appropriation........	$1,024,131,000	$997,628,000	$963,437,000	$252,450,000
Indefinite current year appropriation.....	---	+12,341,000	---	---
Appropriation available from subsequent year...	+11,730,000	---	---	---
Appropriation available in prior year.........	---	-11,730,000	---	---
Subtotal, budget authority............	$1,035,861,000	$998,239,000	$963,437,000	$252,450,000
Unobligated balance lapsing................	-2,796,000	---	---	---
Total obligations...	$1,033,065,000	$998,239,000	$963,437,000	$252,450,000

1/ Excludes the following amounts for reimbursement from the Department of Labor: FY 1985 - $403,000 and 12 full-time equivalents (FTE's); FY 1986 - $490,000 and 15 FTE's; and FY 1987 - $521,000 and 15 FTE's.

Special Benefits for Disabled Coal Miners

Summary of Changes

1986 Appropriations (definite)......................	$997,908,000
Indefinite current year appropriation..............	12,341,000
Appropriation available in prior year..............	-11,730,000
1986 Sequester order................................	-280,000
1986 Current estimate, budget authority............	$998,239,000
1987 Estimated budget authority....................	$963,437,000
Net change.....................................	-$34,802,000

	1986 Base		Change from Base	
Increases:	WY's (FTE)	Budget Authority	WY's (FTE)	Budget Authority
A. Built-in:				
1. Benefit payments:				
Effect of 3.0 percent increase effective January 1987	--	$992,000,000	--	+$18,000,000
B. Program				
1. Administration:				
Restoration of Gramm-Rudman cuts taken in FY 1986 but not in FY 1987..........	190 (188)	$6,239,000	+9 (0)	+$280,000
Total increases.......				+$18,280,000
Decreases:				
A. Built-in:				
1. Benefit payments........	--	$992,000,000	--	-$53,000,000
a. Reduction in benefit payments due to a decrease of 18,000 beneficiaries........	--	--	--	(-$50,000,000)

	1986 Base		Change from Base	
	WY's (FTE)	Budget Authority	WY's (FTE)	Budget Authority
b. Reduction due to slightly lower average monthly benefit payments for beneficiaries in current pay status...............	--	--	--	(-$2,000,000)
c. Legislative proposal.............	--	--	--	(-$1,000,000)
2. Administration:				
Reduction in administrative expenses due to a decrease in ongoing workloads based on the decline in the number of beneficiaries, partially offset by increased costs of substitution of overtime workyears for FTE's and completion of a one-time beneficiary mailer project scheduled to begin in the middle of FY 1986.................	190 (188)	$6,239,000	-9 (-21)	-$82,000
Total decreases......				-$53,082,000
Net change.........			-- (-21)	-$34,802,000

Special Benefits for Disabled Coal Miners

Budget Authority by Activity
(Budget authority in thousands)

	1985 Actual	1986 1/ Appropriation	1986 1/ Current 2/ Estimate	1987 Estimate
Benefit payments......	$1,029,530	$979,000	$992,000	$957,000
(Obligations)........	($1,027,125)	($979,000)	($992,000)	($957,000)
Administration........	6,331	6,519	6,239	6,437
(Obligations)........	(5,940)	(6,519)	(6,239)	(6,437)
Total, budget authority.........	$1,035,861	$985,519	$998,239	$963,437
(Obligations)......	($1,033,065)	($985,519)	($998,239)	($963,437)
First quarter advance appropriation for the subsequent year......	---	($270,000)	($270,000)	($252,450)
Full-time equivalents................	170	188	188	167

1/ For explanation of the difference between FY 1986 Appropriation and FY 1986 Current Estimate, see section entitled "Revisions to the FY 1986 Budget" in the General Statement for this account.

2/ Reflects a reduction of $280,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

Special Benefits for Disabled Coal Miners

Budget Authority by Object 1/

	1986 Current 1/ Estimate 2/	1987 Estimate	Increase or Decrease
Full-time equivalent of full-time permanent positions	179	164	-15
Full-time equivalent of all other positions	9	3	-6
Total compensable workyears	190	190	0
Average ES salary	$66,878	$66,978	+$100
Average GS grade	7.99	8.01	+.02
Average GS salary	$25,087	$25,562	+$475
Personnel compensation:			
Permanent positions	$3,870,000	$3,604,000	-$266,000
Positions other than permanent	199,000	185,000	-14,000
Other personnel compensation	29,000	510,000	+481,000
Subtotal, personnel compensation	$4,098,000	$4,299,000	+$201,000
Personnel benefits	533,000	487,000	-46,000
Travel and transportation of persons	23,000	23,000	---
Transportation of things	16,000	16,000	---
Rents, communications and utilities:			
Rent	414,000	429,000	+15,000
Communications, utilities and miscellaneous charges	564,000	558,000	-6,000
Printing and reproduction	43,000	43,000	---
Other services	472,000	506,000	+34,000
Supplies and materials	65,000	65,000	---
Equipment	11,000	11,000	---
Insurance claims and indemnities	992,000,000	957,000,000	-35,000,000
Total, budget authority by object	$998,239,000	$963,437,000	-$34,802,000
First quarter advance appropriation for the subsequent year	($270,000,000)	($252,450,000)	(-$17,550,000)

1/ Excludes work done under a reimbursable agreement with the Department of Labor which required 12 full-time equivalents, 12 workyears and $403,000 in FY 1985; and will require 15 full-time equivalents, 16 workyears and $490,000 in FY 1986, and 15 full-time equivalents, 16 workyears and $521,000 in FY 1987.

2/ Reflects a reduction of $280,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

Special Benefits for Disabled Coal Miners

Authorizing Legislation

	1986 Amount Authorized	1986 Current Estimate	1987 Amount Authorized	1987 Budget Request
Title IV of the Federal Mine Safety and Health Act of 1977..........	Indefinite	$998,239,000[1/]	Indefinite	$963,437,000[2/]
First quarter advance appropriation for the subsequent year.............	---	($270,000,000)	---	($252,450,000)

[1/] Reflects a reduction of $280,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, (P.L. 99-177).

[2/] Includes an advance appropriation of $270,000,000 enacted in the Health and Human Services Appropriations Act, 1986 (P.L. 99-178).

Special Benefits for Disabled Coal Miners

Table of Estimates and Appropriations

Fiscal Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1978	$967,623,000	$967,623,000	$967,623,000	$967,623,000
1979	1,016,608,000	1,016,608,000	1,016,608,000	1,016,608,000
1980	1,005,202,000	1,005,202,000	1,005,202,000	1,005,202,000
1981	1,097,751,000	1,097,751,000		1,135,599,000
1982	1,099,065,000	1,099,065,000	1,099,065,000	1,099,065,000
1983	1,102,000,000	1,102,000,000	1,093,000,000	1,093,000,000
1984	1,027,047,000	1,027,047,000	1,068,000,000	1,068,000,000
1985	1,024,131,000	1,024,131,000	1,024,131,000	1,024,131,000
1986	997,908,000	997,908,000	997,908,000	997,908,000
1986 Sequester Order	-280,000			
1986 Indefinite	12,341,000			
1987	963,437,000[1]			
1988	252,450,000[2]			

---

[1] Includes an advance appropriation of $270,000,000 enacted by the Health and Human Services Appropriations Act, 1986 (P.L. 99-178).

[2] First quarter advance appropriation request for FY 1988.

Special Benefits for Disabled Coal Miners

Justification

Account Summary

	1986 Current Estimate[1/]	1987 Estimate	Increase or Decrease
Special Benefits for Disabled Coal Miners:			
Budget authority...	$998,239,000	$963,437,000	-$34,802,000
First quarter advance appropriation for the subsequent year...	($270,000,000)	($252,450,000)	(-$17,550,000)
Full-time equivalents.......	188	167	-21
Workyears..........	190	190	---

1/ Reflects a reduction of $280,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

General Statement

Title IV of the Federal Coal Mine Health and Safety Act of 1969, enacted on December 30, 1969, provided for the payment of cash benefits to coal miners who are disabled due to coal workers' pneumoconiosis (black lung) and to their widows and certain other dependents. The Black Lung Benefits Act of 1972 (P.L. 92-303) and the Black Lung Benefits Reform Act of 1977 (P.L. 95-239) broadened and liberalized the original legislation. The Federal Mine Safety and Health Act of 1977 (P.L. 95-164) changed the name of the Federal Coal Mine Health and Safety Act of 1969, but did not change materially the provisions of title IV. The Black Lung Benefits Revenue Act of 1981 (P.L. 97-119) made a technical change in the computation of benefits, but did not change the amounts paid.

The Social Security Administration (SSA) is responsible for processing and paying claims for miners' benefits filed from December 30, 1969 through June 30, 1973, or within 6 months after the death of a miner or widow already on the beneficiary roll maintained by SSA and survivor claims filed through December 31, 1973. Beginning in fiscal year 1975, survivors whose dependency had previously been established are automatically entitled, without having to file an application. As an agent of the Department of Labor, SSA has continued to take miners' claims filed after June 30, 1973, and survivors' claims filed after December 31, 1973, and has forwarded them to the Department of Labor for adjudication and payment. Costs incurred by the Social Security Administration in taking these claims are reimbursed by the Department of Labor.

The President's appropriation request of $963,437,000 for this account includes $964,437,000 under current law adjusted by a net decrease of $1,000,000 assuming congressional action on the proposed legislation as follows:

Current law appropriation request..........................	$964,437,000
Impact of legislative changes:	
--The proposed legislation, which is also included in the appropriation language, would restore the consistency in rounding procedures between titles II and XVI and black lung benefits.......................................	-1,000,000
Total, appropriation request in President's budget.........	$963,437,000

Revisions to the FY 1986 Budget

To take into account more recent experience, the FY 1986 budget estimates have been revised as follows:

	FY 1986		
	Appropriation	Current Estimate	Change
Benefit payments.......	$979,000,000	$992,000,000	+$13,000,000
Administration.........	6,519,000	6,239,000	-280,000
Total, budget authority...........	$985,519,000	$998,239,000	+$12,720,000
Appropriation available in prior year..................	+12,389,000	+11,730,000	-659,000
Indefinite current year appropriation.........	---	-12,341,000	-12,341,000
Subtotal, FY 1986 adjusted appropriation.......	$997,908,000	$997,628,000	-$280,000
Sequestered amount.....	---	+280,000	+280,000
Total, FY 1986 appropriation.......	$997,908,000	$997,908,000	---

Benefit Payments (+$13,000,000)

The increase in benefit payments is due primarily to lower attrition rates than previously estimated. The current estimate assumes there will be 1,000 more primary beneficiaries on the rolls at the midpoint of FY 1986, and 2,000 more primary beneficiaries on the rolls at the midpoint of FY 1987.

Administration (-$280,000)

This decrease results from the sequestration ordered as a result of the Balanced Budget and Emergency Deficit Control Act of 1985.

Program Accomplishments

The Social Security Administration makes black lung benefit payments and maintains the beneficiary roll (e.g., keeping track of changes of address or events affecting entitlement for benefits). The most representative indicators of program accomplishments during the 5-year period FY 1982-1986 are the number of beneficiaries and the amount of benefits paid. This information is summarized below:

Fiscal Year	Beneficiaries (at midpoint of year)	Benefit Obligations
1982..............	372,000	$1,074,733,000
1983..............	348,000	$1,074,404,000
1984..............	329,000	$1,048,412,000
1985..............	309,000	$1,027,125,000
1986 (estimate)...	291,000	$992,000,000

Special Benefits for Disabled Coal Miners

Benefit Payments

Authorizing Legislation: (Federal Mine Safety and Health Act of 1977, Title IV).

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority........	$992,000,000	$957,000,000	-$35,000,000
First quarter advance appropriation for the subsequent year........	($270,000,000)	($252,450,000)	(-$17,550,000)

Purpose and Method of Operation

These funds are used to provide monthly benefits to coal miners who are totally disabled due to pneumoconiosis, to the widows of miners whose deaths were due to this disease, to dependents, to orphaned children of miners, and to certain dependent parents, brothers and sisters of miners. The basic benefit rate is 37 1/2 percent of the monthly pay rate for Federal employees in grade GS-2, step 1. This rate was established by the Black Lung Benefits Revenue Act of 1981 (P.L. 97-119).

A disabled miner or an eligible widow receives the basic benefit amount ($328.20 effective January 1985). If the disabled miner or eligible widow has dependents, the benefit increases with the number of dependents--an additional 50 percent for one dependent, 75 percent for two dependents, and 100 percent for three or more dependents.

Rationale for the Budget Request

In FY 1987, SSA is requesting $957,000,000 to pay black lung benefits, a decrease of $35,000,000 from the current FY 1986 estimate of $992,000,000. As in past years, black lung benefits are continuing to decrease due to the declining beneficiary roll for SSA's portion of the program. These changes are:

1. Reduction in the number of beneficiaries (-$50,000,000)

Mainly as a result of the death rate of miners and their widows, and the remarriage of widows, the number of beneficiaries on the roll will decline.

Estimated Beneficiaries (at midpoint of fiscal year)	FY 1986	FY 1987
Miners	76,000	69,000
Widows	137,000	135,000
Other dependents	78,000	69,000
Total	291,000	273,000

2. Reduction in average benefit payments (-$2,000,000)

The average monthly benefit payment for miners and widows includes payments for other dependents. However, as the number of dependents decline due to terminating events (e.g., age 18 attainment) the benefit amount of individual checks drops, thus reducing the overall average benefit. The average benefit payment decrease (excluding the effect of the 3 percent benefit increase in January 1987) is reflected in the table below:

	FY 1986	FY 1987
Miners	$465	$464
Widows	$338	$338
Children	$342	$341

3. Effect of 3.0 percent benefit increase effective January 1987 (+$18,000,000)

The basic benefit rate for a black lung recipient is $328.20 (effective January 1985), and represents 37 1/2 percent of the monthly pay rate for Federal employees in grade GS-2, step 1. The Administration estimates the Federal civilian pay increase effective January 1987 will be 3 percent. On that basis, the basic black lung benefit payment for miners would increase from $464 to $478 per month.

4. Legislative proposal (-$1,000,000)

Proposed legislation, which is also included in the FY 1987 appropriation language, would provide that monthly benefits, when changed, shall be paid consistent with section 215(g) of the Social Security Act. Until the Omnibus Reconciliation Act of 1981, both Social Security and black lung benefits were rounded consistently. The appropriation language restores the original uniformity.

Advance Appropriation

The estimate of $252,450,000 represents the amount of the advance appropriation requested to finance benefit payments for individuals under title IV of the Federal Mine Safety and Health Act of 1977 for the first quarter of FY 1988.

Special Benefits for Disabled Coal Miners

Administration

Authorizing Legislation: (Federal Mine Safety and Health Act of 1977, Title IV).

	1986 Current Estimate[1]	1987 Estimate	Increase or Decrease
Budget authority........	$6,239,000	$6,437,000	+$198,000
Full-time equivalents...	188	167	-21
Workyears...............	190	190	--

Purpose and Method of Operation

For that portion of the black lung program directly administered by SSA, the primary objective in FY 1987 is to pay $957,000,000 in benefit payments accurately and timely, and to process the appellate cases that are awarded. To achieve these objectives SSA must keep the beneficiary rolls up-to-date by reflecting additions to the rolls and deletions which result from death of a beneficiary or remarriage of a widow, posting new addresses, and responding to beneficiary inquiries.

Rationale for Budget Request

I. SSA Work

The following table outlines SSA's estimated workloads and workyear needs for black lung:

	1986 Current Estimate	1987 Estimate	Change
A. Workloads:			
Appellate Workloads Processed:			
Hearing........................	100	100	---
Appeals........................	40	30	-10
Court cases....................	70	70	---
Total....................	210	200	-10

1/ Reflects a reduction of $280,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

	FY 1986 Current Estimate	FY 1987 Estimate	Change
Maintenance of the Rolls:			
Beneficiaries at midpoint of the year:			
Miners....................	76,000	69,000	-7,000
Widows....................	137,000	135,000	-2,000
Other dependents..........	78,000	69,000	-9,000
Total................	291,000	273,000	-18,000

B. Workyear Requirements:

	FY 1986 Current Estimate	FY 1987 Estimate	Change
Full-time equivalents.....	188	167	-21
Nonceiling................	--	0	--
Overtime..................	2	23	+21
Total................	190	190	--

Ongoing maintenance workloads decrease slightly in FY 1987 compared with FY 1986 estimates and we expect the workyears required to process these ongoing workloads to decrease slightly as well. However, FY 1987 workyear requirements in total remain level with FY 1986 to provide for completion of a one-time beneficiary mailer project which is scheduled to begin in the middle of FY 1986. This mailer project, which was first tested in FY 1985, is designed to improve the integrity of the rolls by detecting current overpayments as well as avoiding future overpayments. Based on the results of the FY 1985 study, SSA plans to implement the mailer project in FY 1986 and complete it in FY 1987.

Although workyears remain level in both years, the amount of budget authority available for FY 1986 is lower than the FY 1987 request. This is primarily because the FY 1986 level reflects a reduction of $280,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985.

II. Reimbursable Work for the Department of Labor

The budget estimates in this justification exclude work done for the Department of Labor (DOL) under a reimbursable agreement. The budget assumes that this work will require 15 FTE's, 16 workyears, and $490,000 in FY 1986; and 15 FTE's, 16 workyears and $521,000 in FY 1987. The following table shows the estimated workloads to be funded through DOL's budget:

	FY 1986 Current Estimate	FY 1987 Estimate
New claims and inquiries............	9,000	9,000
Search Social Security earnings records for coal mine employment histories...............	4,800	4,800

DEPARTMENT OF HEALTH AND HUMAN SERVICES

SOCIAL SECURITY ADMINISTRATION

Supplemental Security Income Program

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SOCIAL SECURITY ADMINISTRATION

Supplemental Security Income Program

For carrying out the Supplemental Security Income program, section 401 of Public Law 92-603, section 212 of Public Law 93-66, as amended, and section 405 of Public Law 95-216, including payment to the Social Security trust funds for administrative expenses incurred pursuant to section 201(g)(1) of the Social Security Act, [$7,712,089,000] *$8,230,068,000* to remain available until expended: *Provided*, That any portion of the funds provided to a State in the current fiscal year and not obligated by the State during that year shall be returned to the Treasury. For making, after July 31 of the current fiscal year, benefit payments to individuals under title XVI of the Social Security Act, for unanticipated costs incurred for the current fiscal year, such sums as may be necessary.

For carrying out the Supplemental Security Income program for the first quarter of fiscal year [1987, $2,339,250,000] *1988, $2,765,000,000* to remain available until expended. *(Department of Health and Human Services Appropriation Act, 1986.)*

Supplemental Security Income Program

Language Analysis

Language Provision	Explanation
"...to remain available until expended:"	This language provides authority to use funds appropriated but not obligated in one fiscal year for obligations and expenditures in a subsequent year.
"*Provided,* That any portion of the funds provided to a State in the current fiscal year and not obligated by the State during that year shall be returned to the Treasury."	This provision ensures that States do not carry unobligated balances of Federal funds into the subsequent fiscal year. The provision applies primarily to the beneficiary services activity.
"For making after July 31 of the current fiscal year, benefit payments to individuals under title XVI of the Social Security Act, for unanticipated costs incurred for the current fiscal year, such sums as may be necessary."	This language provides indefinite authority to finance any shortfall in the definite appropriation for benefit costs during the last 2 months of a fiscal year. This replaces the practice of borrowing from subsequent appropriations.
"For carrying out the Supplemental Security Income program for the first quarter of fiscal year [1987, $2,339,250,000] *1988, $2,765,000,000* to remain available until expended "	This language appropriates funds for first quarter costs of the subsequent fiscal year. This provision insures that beneficiaries will continue to receive benefits during the first quarter of FY 1988, regardless of any temporary delay in enactment of annual appropriations.

Supplemental Security Income Program

Amounts Available for Obligation [1/]

Appropriation	1985 Actual	1986 Current Estimate	1987 Estimate	1988 Estimate
Annual (definite).........	$9,361,786,000	$10,057,858,000	$10,569,318,000	$2,765,000,000
Regular appropriation...	(9,361,786,000)	(7,712,089,000)	(8,230,068,000)	---
First quarter advance appropriation...........	---	(2,345,769,000)	(2,339,250,000)	(2,765,000,000)
Sequester order...........	---	-32,669,000	---	
Subtotal, adjusted appropriation.........	$9,361,786,000	$10,025,189,000	$10,569,318,000	$2,765,000,000
Indefinite current year appropriation............	---	+253,545,000	---	---
Appropriation available from subsequent year.....	+409,194,000	---	---	---
Appropriation available in prior year............	-328,618,000	-409,194,000	---	---
Subtotal, budget authority.............	$9,442,362,000	$9,869,540,000	$10,569,318,000	$2,765,000,000

Supplemental Security Income Program

Amounts Available for Obligation - Continued

	1985 Actual	1986 Current Estimate	1987 Estimate	1988 Estimate
Unobligated balance, start of year............	+$317,388,000	+$290,022,000	---	---
Unobligated balance, end of year.............	-290,022,000	---	---	---
Recovery of prior year obligations.............	+14,975,000	+442,000	---	---
Total, obligations....	$9,484,703,000	$10,160,004,000	$10,569,318,000	$2,765,000,000

1/ Excludes the following amounts for reimbursable State supplementation payments: FY 1985 - $1,930,689,000; FY 1986 - $2,000,000,000; and FY 1987 - $2,030,000,000.

Supplemental Security Income Program

Summary of Changes

1986 Appropriation (definite)..	$10,057,858,000
Indefinite current year appropriation..	+253,545,000
Appropriation available in prior year..	-409,194,000
Sequester order..	-32,669,000
1986 Current estimate, budget authority..	$9,869,540,000
1987 Estimate, budget authority..	10,569,318,000
Net change..	+$699,778,000

Increases:	1986 Base Budget Authority	Change from Base Budget Authority
Built-in:		
1. Federal benefit payments..................................	$8,884,902,000	+$1,866,098,000
a. Annualization of benefits for 470,000 recipients added to the rolls during FY 1986. Since these recipients were on the rolls only for part of FY 1986, the cost of benefits for them for a full year in FY 1987 produces an increase..................		(+500,000,000)
b. Increase of 475,000 new Federal recipients in FY 1987		(+645,000,000)
c. Effect of automatic cost-of-living increases of 3.1 percent in January 1986 and 3.7 percent in January 1987..		(+505,000,000)
d. FY 1986 obligations funded from balances carried over from FY 1985....................................		(+216,098,000)
2. Increased cost for beneficiary services due to a higher rate of successful vocational rehabilitations at greater costs per case (obligations increase by $958,000 from FY 1986 base of $7,242,000). The FY 1986 obligations are funded in part by $442,000 in recoveries of FY 1985 obligations.)..	6,800,000	+1,400,000
Total, increases....................................		+$1,867,498,000

	1986 Base Budget Authority	Change from Base Budget Authority
Decreases:		
Built-in:		
1. Federal benefit payments	$8,884,902,000	-$1,162,000,000
a. Decrease of 375,000 recipients in FY 1986 and 380,000 recipients in FY 1987 due to normal attrition		(-987,000,000)
b. Reduction due to Social Security COLA's that are counted as income for concurrent recipients (about half of the SSI rolls)		(-175,000,000)
Program:		
1. Net reductions in payments to the trust funds for administrative costs	$977,838,000	-$5,720,000
Total, decreases		-$1,167,720,000
Net change		+$699,778,000

Supplemental Security Income Program

Budget Authority by Activity [1/]
(Budget authority in thousands)

	1985 Actual	1986 Appropriation [2/]	1986 Current Estimate [3/]	1987 Estimate	1988 Estimate [4/]
Federal benefit payments....................	$8,480,072	$8,863,683	$8,884,902	$9,589,000	$2,765,000
(Obligations)..............	($8,539,298)	($8,863,683)	($9,101,000)	($9,589,000)	($2,765,000)
Beneficiary services.........	5,000	6,800	6,800	8,200	---
(Obligations)..............	(1,805)	(6,800)	(7,242)	(8,200)	(---)
Administrative costs:					
(A) Payment to the trust funds for administrative costs............	936,175	1,010,507	977,838	972,118	---
(Obligations).......	(938,849)	(1,010,507)	(977,890)	(972,118)	(---)
(B) Demonstration projects..............	---	---	---	---	---
(Obligations).......	(2,670)	(---)	(1,238)	(---)	(---)
Federal fiscal liability.....	21,115	---	---	---	---
(Obligations)..............	(2,081)	(---)	(72,634)	(---)	(---)
Total, budget authority..................	$9,442,362	$9,880,990	$9,869,540	$10,569,318	$2,765,000
(Obligations)............	($9,484,703)	($9,880,990)	($10,160,004)	($10,569,318)	($2,765,000)

Supplemental Security Income Program

Budget Authority Activity - Continued

1/ Excludes the following amounts for reimbursable State supplementation payments: FY 1985 - $1,930,689; FY 1986 - $2,000,000; FY 1987 - $2,030,000.

2/ For explanation of the difference between 1986 Appropriation and 1986 Current Estimate, see section entitled "Revisions to the FY 1986 Budget" in the General Statement of the account.

3/ The 1986 Current Estimate reflects a reduction of $32,669,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

4/ The 1988 estimate represents the advance appropriation for the first quarter of 1988.

Supplemental Security Income Program

Budget Authority by Object

	1986 Current Estimate 1/	1987 Estimate	Increase or Decrease	1988 Estimate 2/
Other services...............	$984,638,000	$980,318,000	-$4,320,000	---
Grants, subsidies and contributions...............	8,884,902,000	9,589,000,000	+704,098,000	$2,765,000,000
Insurance claims and indemnities.................		---	---	---
Total, budget authority by object....................	$9,869,540,000	$10,569,318,000	+$699,778,000	$2,765,000,000

1/ Reflects a reduction of $32,669,000 in other services pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

2/ First quarter advance appropriation.

Supplemental Security Income Program

Authorizing Legislation

	1986 Amount Authorized	1986 Current Estimate	1987 Amount Authorized	1987 Budget Request
Title XVI of the Social Security Act, section 401 of P.L. 92-603, and section 212 of P.L. 93-66, as amended, and section 405 of P.L. 95-216.........	Indefinite	$9,869,540,000 1/	Indefinite	$10,569,318,000
First quarter advance appropriation for subsequent year.....	---	($2,339,250,000)	---	($2,765,000,000)

1/ Reflects a reduction of $32,669,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

Supplemental Security Income Program

Table of Estimates and Appropriations

Fiscal Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1978	$5,750,000,000	$5,220,000,000	$5,220,000,000	$5,250,000,000
1979	5,714,971,000	5,527,854,000	5,527,854,000	5,557,854,000
1980	6,422,036,000	6,323,436,000	6,323,436,000	6,323,436,000
1981	7,005,117,000	7,005,117,000	---	7,368,413,000
1982	8,082,477,000	7,754,477,000	7,757,577,000	7,772,388,000
1983	8,919,495,000	8,571,749,000	8,543,616,000	8,543,616,000
1984	8,169.518,000	7,510,618,000	8,339,000,000	8,339,000,000
1985	9,383,076,000	9,328,076,000	9,399,076,000	9,361,786,000
1986	10,057,858,000	10,038,358,000	10,038,358,000	10,057,858,000
1986 Sequester Order	-32,669,000			
1986 Indefinite	253,545,000			
1987	10,569,318,000			
1988	2,765,000,000[1]			

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[1] First quarter advance appropriation.

Supplemental Security Income Program

Justification

Account Summary

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Supplemental Security Income Program:			
Budget authority.........	$9,869,540,000[1]	$10,569,318,000	+$699,778,000
(Obligations)...........	($10,160,004,000)	($10,569,318,000)	(+$409,314,000)
First quarter advance appropriation for subsequent year.........	($2,339,250,000)	($2,765,000,000)	(+$425,750,000)
Full-time equivalents....	18,005	16,829	-1,176
Workyears................	18,718	18,240	-478

---

[1] Reflects a reduction of $32,669,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

General Statement

Title XVI of the Social Security Act mandates a supplemental security income (SSI) program of monthly cash benefits payable to the needy aged, blind and disabled, as a federally-guaranteed minimum income. The program is federally-administered and financed from general funds.

States are encouraged to supplement the Federal benefit, and may elect to have their supplementation payments administered by the Federal Government at no charge. Supplementation is mandatory for certain recipients who were on State rolls just prior to the creation of the Federal program on January 1, 1974. Otherwise, State supplementation is optional.

Highlights of the FY 1986-1987 Budget Request

--The average number of Federal SSI recipients is expected to increase about 1.0 percent in FY 1987 to 3,912,000 from 3,813,000 in FY 1986. This trend is discussed in detail in the "Federal Benefit Payments" activity that follows.

--Title XVI of the Social Security Act provides for automatic cost-of-living adjustments (COLA's) at the same rate as those provided to Social Security benefit recipients. The amount of the COLA increase beginning with the January 1986 check was 3.1 percent. This request includes funding for a projected COLA increase of 3.7 percent beginning with the January 1987 payment.

--The Deficit Reduction Act of 1984 (P.L. 98-369) authorized an interface of SSI records with Internal Revenue Service records to reveal undetected assets (primarily unreported bank accounts) that may affect SSI eligibility. This budget reflects greater savings from the match than previous budget estimates, based on preliminary results from the first actual run conducted in August 1985.

--The appropriation language provides the authority needed to finance the first quarter of costs for the SSI program in FY 1988. This insures that benefit payments for the first quarter of FY 1988 will be made timely, even if enactment of annual appropriations is delayed.

--In prior years budget authority was requested for Federal Fiscal Liability (FFL) payments which were used to: 1) reimburse States for supplementation funds incorrectly paid by the Federal Government as a result of Federal error; and 2) reimburse States for erroneous State-administered supplementation payments made during calendar year 1974 as a result of incorrect information furnished by the Secretary or incorrect Federal SSI benefit payments. Funds are no longer being requested for FFL. Regulations promulgated by HHS in FY 1984 eliminated the FFL activity. SSA discontinued sampling for errors in the federally-administered State supplementation programs, thus saving an additional $5 million in administrative costs. SSA, however, will pay FFL to States for errors which occurred before October 1, 1984. Previously appropriated amounts should be sufficient to make those payments. Payments (outlays) to States are expected to continue through FY 1986.

Revisions to the FY 1986 Budget

To take into account more recent experience, the FY 1986 budget estimates have been revised as follows:

	FY 1986		
	Appropriation	Current Estimate	Change
Federal benefit payments..................	$8,863,683,000	$9,101,000,000	+$237,317,000
Beneficiary services.......	6,800,000	7,242,000	+442,000
Administrative costs:			
(1) Payments to the trust funds for administrative expenses.............	1,010,507,000	977,890,000	-32,617,000
(2) Demonstration projects............	-0-	1,238,000	+1,238,000
Federal fiscal liability..................	-0-	72,634,000	+72,634,000
Subtotal, Program costs...........	$9,880,990,000	$10,160,004,000	+$279,014,000
Appropriation available in prior year..............	+176,868,000	+409,194,000	+232,326,000
Indefinite current year appropriation.........	---	-253,545,000	-253,545,000
Unobligated balance, start of year..............	---	-290,022,000	-290,022,000
Recovery of prior year obligations...............	---	-442,000	-442,000
Total, FY 1986 Adjusted Appropriation...........	$10,057,858,000	$10,025,189,000	-$32,669,000
Sequester order............	---	+32,669,000	+32,669,000
Total, FY 1986 Appropriation..........	$10,057,858,000	$10,057,858,000	---

Federal Benefit Payments (+$237,317,000)

The revised benefits estimate is $165,000,000 above the FY 1986 President's budget request, and $237,317,000 above the appropriation for this activity. This higher estimate results from higher caseload estimates, a change in the population mix and higher average payments:

- Higher Caseload: The FY 1986 President's budget projected the total SSI caseload to be 3,776,000. The current estimate has been increased by 45,000 recipients to 3,821,000.
- Change in Population: In addition to the caseload increase, recent program experience suggests that the composition of the caseload is changing. The average monthly number of aged recipients has decreased by about 61,000 while blind and disabled recipients have increased by about 106,000. Blind and disabled recipients receive a much higher average monthly benefit than aged recipients. As such, this change in the population mix results in higher benefit payment costs.
- Average Monthly Benefit Payments: The estimate contained in the FY 1986 President's budget for blind and disabled recipients assumed average monthly benefit payments of $230.00. The current estimate reflects average monthly benefit payments of $232.00. Conversely, average monthly benefit payments for the aged are now estimated at $141.00 compared to $139.00. Because blind and disabled recipients constitute approximately two-thirds of the caseload, these adjustments result in net increased costs.

Beneficiary Services (+$442,000)

Actual experience suggests that rehabilitative services are required for longer periods of time. Average costs per case have, therefore, increased. This increase in FY 1986 will be funded with the recovery of prior year obligations.

Payments to the Trust Funds for Administrative Expenses (-$32,617,000)

The revised administrative expenses estimate is $32,617,000 below the appropriation for this activity. The decrease primarily reflects the sequestration order (-$32,669,000) offset by +$52,000 in unobligated balances carried forward into FY 1986 for this activity. The FY 1986 SSI appropriation estimated repayment to the Social Security trust funds is $24,884,000 for the SSI share of SSA's FY 1985 administrative expenses in excess of the amounts available in FY 1985. This procedure, authorized by the Social Security Act as amended, is explained in the "Payments to the Trust Funds for Administrative Costs" activity writeup.

Demonstration Projects (+$1,238,000)

The increase reflects expenditures for demonstration projects that were planned for FY 1985, but delayed until FY 1986. These costs will be funded from the carryover of demonstration project funds from FY 1985.

Federal Fiscal Liability (FFL) (+$72,634,000)

The increase reflects the delay in settlement of old sample periods (FY 1976-FY 1984). These costs will be covered with the carryover of FFL funds from FY 1985 which includes recoveries from prior year obligations.

Program Accomplishments

The Supplemental Security Income (SSI) program provides income up to a Federal minimum level for the needy aged, blind and disabled. The average number of recipients on the rolls during the past 4 fiscal years (FY 1982-FY 1985) and the projection for FY 1986 is shown in the table below. This table includes both recipients of Federal SSI payments or of State supplementation payments administered by the Federal Government.

Average SSI Recipients
(in thousands)

	Fiscal Year				
	1982	1983	1984	1985	1986
Aged..........................	1,405	1,333	1,338	1,348	1,304
Blind and disabled...........	2,157	2,176	2,268	2,382	2,509
Total, Federal.............	3,562	3,509	3,606	3,730	3,813
State supplementation..............	416	364	317	335	340
Total, average SSI recipients.............	3,978	3,873	3,923	4,065	4,153

The following table details the amount of Federal benefits for FY 1982 to FY 1985 and the projection for FY 1986.

SSI Payments [1/]
(in millions of dollars)

	Fiscal Year				
	1982	1983	1984	1985	1986
Federal benefit payments.....	$6,785	$7,797	$7,521	$8,652	$8,885

[1/] FY 1983 totals reflect 13 months of benefit payments and FY 1984, 11 months of benefit payments as a result of the accelerated check provision of P.L. 95-216.

Supplemental Security Income Program

Federal Benefit Payments

Sections 1602, 1611, and 1617 of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority.......	$8,884,902,000	$9,589,000,000	+$704,098,000
(Obligations).......	($9,101,000,000)	($9,589,000,000)	(+$488,000,000)
First quarter advance appropriation for subsequent year.......	($2,339,250,000)	($2,765,000,000)	(+$425,750,000)

Purpose and Method of Operation

The SSI program was established to pay needy aged, blind and disabled individuals a minimum level of income through federally-administered monthly cash benefit payments. In many cases, these payments supplement income from other sources, including Social Security benefits. The budget request for FY 1987 includes $9,589,000,000 for payments to 3,912,000 recipients of monthly Federal payments.

Rationale for the Budget Request

The increase for FY 1987 over FY 1986 shown above reflects the net effect of several factors--the dollar effect of each is identified further in the "Summary of Changes" exhibit. The following tables provide additional statistics and explanations of factors which affect the level of Federal benefit payments under current law.

A. Average Monthly Number of Recipients

The table below reflects the estimated average monthly number of recipients of Federal SSI payments under current law (in thousands):

	1986 Current Estimate	1987 Estimate	Change Number	Change Percent
Aged.................	1,304	1,264	-40	-3.1%
Blind and disabled...	2,509	2,648	+139	+5.5%
Total............	3,813	3,912	+99	+2.6%

The increase in the average monthly number of recipients reflects a decrease in the number of aged which is more than offset by an increase in the number of blind and disabled recipients. The estimates assume that this trend will continue through FY 1987.

B. Maximum Monthly Federal Benefits

Under the automatic cost-of-living adjustment provision, a 3.1 percent increase was paid on December 31, 1985 for January 1986 and a 3.7 percent increase is projected for January 1987. The maximum monthly Federal benefits estimated for FY 1986 and FY 1987 under present law are:

	1986		1987	
	First 3 Months	Last 9 Months (3.1% Increase)	First 3 Months	Last 9 Months (3.7% Increase)
Single individual...	$325.00	$336.00	$336.00	$348.00
Couple..............	$488.00	$504.00	$504.00	$522.00

C. Estimated Average Monthly Payments

Because SSI recipients generally have some other monthly income, such as Social Security benefits or private pensions, very few receive the maximum Federal benefit shown in the preceding table. The table below shows the estimated average monthly Federal payments to SSI recipients during FY 1986 and FY 1987 under current law.

	1986	1987
Aged...................	$139.00	$141.00
Blind and disabled.....	$232.00	$238.00
All SSI recipients.....	$200.00	$207.00

D. Factors Affecting Average Monthly Payments

1. Automatic Benefit Increases

The SSI automatic cost-of-living increases granted on January 1 of each year raise average SSI payments. At the same time, concurrent automatic increases in Social Security benefits, which raise the other income of many SSI recipients, partially offset the increase in average SSI payments. The effects of such increases on the maximum and average monthly payments are shown in paragraphs B and C above, respectively.

2. Mix of Concurrent Recipients

Average monthly payments are significantly lower than the maximum amount payable under the law primarily because roughly half of the SSI recipient population also receive title II benefit payments. This percentage is expected to remain stable in FY 1987. Approximately 71 percent of the SSI aged group and 37 percent of the SSI blind and disabled population receive concurrent payments.

3. Mix of Converted and New Recipients

SSI recipients who were on the State adult assistance rolls prior to the SSI program were grandfathered into the SSI program. Experience shows that these converted recipients receive higher payments on the average than do those who have come onto the SSI rolls since January 1974. The number of converted recipients is dropping steadily, due primarily to death, cessation of disability or excess income or resources. This decline is illustrated by the following table:

SSI Recipients of Federal Benefits at End-of-Year (in thousands)

	Total	Converted	% Converted
FY 1985 actual............	3,790	909	24%
FY 1986 estimate..........	3,869	825	21%
FY 1987 estimate..........	3,966	755	19%

4. Mix of Aged and Blind and Disabled Recipients

Current estimates indicate that there will be a decline from FY 1986 to FY 1987 in the number of aged recipients and an increase in blind and disabled recipients. This change in the population mix is illustrated in the following table:

SSI Recipients of Federal Benefits at End-of-Year (in thousands)

	Total	Aged	Blind and Disabled	B & D As % of Total
FY 1985 actual.....	3,790	1,333	2,457	65
FY 1986 estimate...	3,869	1,285	2,584	67
FY 1987 estimate...	3,966	1,248	2,718	69

As previously indicated, the blind and disabled population receives a larger average monthly benefit than the aged population. This occurs because blind and disabled recipients generally have less income from other sources to offset SSI benefits. As the proportion of blind and disabled recipients to the total recipient population increases, the overall average monthly benefit increases and, therefore, the cost of the SSI program also increases.

5. Efforts to Improve Payment Accuracy

SSA is continuing its extensive efforts to improve payment accuracy by locating and terminating ineligible recipients and correcting benefits to eligible beneficiaries. For FY 1986 and FY 1987 the budget will emphasize overpayment detection and prevention as well as collections. Total SSI Federal overpayment collections are estimated at $384 million in FY 1986 and $406 million in FY 1987. Current law overpayment collection policies that have resulted in recent increases in such collections include the OASDI-SSI windfall offset, the voluntary cross program recovery and speeding up the recovery period. However, SSI collections will be limited by the Deficit Reduction Act of 1984 (P.L. 98-369) which limits monthly collections from SSI recipients to a maximum of 10 percent of their monthly income.

A major means of improving payment accuracy is through the redetermination process. A redetermination is a review of conditions for SSI eligibility to ensure that the recipient is still entitled to benefits and is receiving the correct amount. Redeterminations have been conducted since the beginning of the program, and we are continuing to improve our detection rate while reducing redetermination workloads.

In addition, computer matching of IRS records of nonwage income against the SSI rolls (under authority granted by the Deficit Reduction Act of 1984) is being used to detect unreported assets (primarily bank accounts) and trigger redeterminations. The first match was conducted in August 1985 and identified 164,00 cases for further development. This includes independent verification of the assets or income, consideration of statutory exclusions, and notification to the recipient of the findings and appeal and waiver rights involved.

FY 1988 Advance Appropriation

The estimate of $2,765,000,000 represents the amount of the advance appropriation required to make supplemental security income benefit payments for the first quarter of FY 1988.

Supplemental Security Income

Beneficiary Services

Sections 1611(e)(3) and 1615(d) of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority.......	$6,800,000	$8,200,000	+$1,400,000
(Obligations)......	($7,242,000)	($8,200,000)	(+$958,000)

Purpose and Method of Operation

Funds requested for this activity are for two purposes:

1. Vocational Rehabilitation (VR)--to reimburse Vocational Rehabilitation (VR) agencies for reasonable and necessary costs of services which resulted in disabled SSI recipients being successfully rehabilitated (section 1615(d) of the Social Security Act). The objective of vocational rehabilitation for SSI recipients is to help disabled individuals return to productive, self-supporting work activity. SSA provides funds to reimburse VR agencies for costs incurred in successfully rehabilitating SSI recipients. In addition, section 1615 of the Social Security Act was amended by the Social Security Disability Reform Act of 1984 (P.L. 98-460) to allow SSA to reimburse States for the costs of rehabilitation services to recipients who refuse to continue services and lose their benefits as a result of their refusal. As provided in the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35), a successful rehabilitation is defined by law as one in which VR services result in performance of substantial gainful activity (SGA) for a continuous period of 9 months.

2. Drug Addicts and Alcoholics--to monitor the treatment of certain disabled SSI recipients who are drug addicts or alcoholics (section 1611(e)(3) of the Social Security Act). Disabled SSI recipients who medically are determined to be drug addicts or alcoholics and whose drug addiction or alcoholism contributes to their disability condition must undergo appropriate treatment for their conditions at an approved facility. Under contracts with the Secretary, governmental and private agencies refer drug addicts or alcoholics to approved treatment facilities, monitor their treatment, and report noncompliance and successful treatment to the Social Security Administration.

Rationale for the Budget Request

1. Vocational Rehabilitation (VR) Services to Disabled SSI Recipients ($6,200,000)

   In FY 1986 the VR program is expected to rehabilitate approximately 1,344 individuals at an average cost of about $3,900 per case. In FY 1987, we anticipate approximately 1,512 case approvals at an average cost of about

$4,100 per case in FY 1987. Actual experience suggests that rehabilitative services are required for longer periods of time than when the program first began. Average costs per case have, therefore, increased. This coupled with a greater proportion of cases submitted by the States meeting Federal reimbursement standards accounts for the overall increase in funding required for this activity. Program reimbursement is provided to the States only for beneficiaries who successfully complete 9 continuous months of SGA attributable to VR services or for those who refuse to continue services and lose their benefits as a result.

2. Monitoring the Treatment of Drug Addicts and Alcoholics ($2,000,000)

In FY 1987 SSA is requesting the same level of funds for the referral and monitoring of drug addicts and alcoholics as the amount budgeted for FY 1986. These funds will serve approximately 5,000 beneficiaries in FY 1987.

Supplemental Security Income Program

Payments to the Trust Funds for Administrative Costs:

Sections 201(g)(1) and 1633 of the Social Security Act and section 505(b) of the Social Security Disability Amendments of 1980 (P.L. 96-265).

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority............	$977,838,000	$972,118,000	-$5,720,000
(Obligations).............	($977,890,000)	($972,118,000)	(-$5,772,000)
Demonstration Projects:			
Budget authority............	---	---	---
(Obligations).............	($1,238,000)	---	(-$1,238,000)
Total budget authority.......	$977,838,000 1/	$972,118,000	-$5,720,000
(Total obligations)........	($979,128,000) 1/	($972,118,000)	(-$7,010,000)

1/ Reflects the reduction of $32,669,000 in budget authority and obligations pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

Purpose and Method of Operation

Payments to the Trust Funds for Administrative Costs

The Social Security Administration (SSA) is responsible for administering the supplemental security income (SSI) program. The appropriation request in FY 1987 for payments to the trust funds for administrative costs is $972,118,000.

Section 201(g)(1) of the Social Security Act provides that administrative expenses for the SSI program, including Federal administration of State supplementation payments, may be financed from the Social Security trust funds with reimbursement, including any interest lost, to the trust funds from general revenues. Administrative expenses of the SSI program are drawn from the trust funds and general funds concurrently on an estimated basis during the fiscal year. Throughout the year SSA adjusts the amounts drawn based on cost determinations made through a cost allocation process which uses data from SSA work measurement systems and general overhead allocation methods. After the close of the year, a final accounting settlement is made, including any necessary interest adjustments. In FY 1987 this activity funds administrative costs for the budget year (FY 1987), plus any adjustments for costs of the prior year which result from the final settlement.

The use of trust funds for SSI administrative expenses is primarily for administrative convenience and efficiency. The legislative history of the 1972 amendments indicates a desire to obtain economy of administration by giving the Social Security Administration the responsibility for the SSI program because of its existing district office network and its administrative and ADP facilities. Because of the integration of the administration of the SSI and Social Security programs it was desirable to fund them from a single source, with concurrent reimbursement to the trust funds based on a cost analysis of the respective expenses of the SSI and Social Security insurance programs.

Rationale for Budget Request

The rationale for these funds is included in the justification for the limitation on administrative expenses.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

SOCIAL SECURITY ADMINISTRATION

Assistance Payments Program

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SOCIAL SECURITY ADMINISTRATION

Assistance Payments Program

For carrying out, except as otherwise provided, titles I, IV-A, and -D, X, XI, XIV, and XVI of the Social Security Act and the Act of July 5, 1960 (24 U.S.C., ch. 9), [$6,859,578,000] *$6,009,478,000,* to remain available until [expended.] *expended: Provided, That notwithstanding section 403(a)(3)(B) of the Social Security Act, not more than 75 per centum of amounts expended for Statewide mechanized claims processing and information retrieval systems for the administration of a State plan approved under Title IV-A of the Act shall be included in determining the amounts payable to a State under section 403 from this or any other appropriation: Provided further, That in the case of any States (other than Puerto Rico, Guam, or the Virgin Islands) in which the ratio of total amounts expended for administration of its AFDC plan for fiscal year 1987 (other than amounts expended for Statewide mechanized claims processing and information retrieval systems under Section 402(a)(30) of the Act, and other than those amounts directly related (as determined by the Secretary) to activities under Section 402(a)(35) of the Act or other employment related activities) to the average monthly number of its AFDC recipients in that fiscal year (called "per recipient administrative costs") exceeds 175 per centum of the national median of all such ratios (such ratios being established by the Secretary of Health and Human Services on the basis of the best data available when the amount payable is determined, with subsequent adjustments made as necessary), no more than 25 per centum of the State's costs in excess of 175 per centum of the national median of such per recipient administrative costs may be included in determining the amount payable from this or any other appropriation: Provided further, That States shall require all employable applicants and recipients for aid to families with dependent children to engage in the activities specified in*

Section 402(a)(35) of the Social Security Act, and shall require all employable recipients to engage in employment activities such as those described in Section 409 of the Act or Section 20 of the Food Stamp Act, as a condition of receiving assistance: Provided further, That no amounts appropriated from this or any other appropriation shall be available for federal financial participation in the costs (on average) of assistance payments, in any State, to more than the 75 per centum of the number of families required to participate, but not participating, in these employment related activities: Provided further, That in calculating a family's eligibility and benefits, States shall exclude the needs of an employable caretaker relative with no dependent child under age sixteen: Provided further, That a minor who has never been married, and the dependent child for whom the minor is responsible, shall be eligible for aid under Title IV-A of the Social Security Act only if the minor is living in his parent's (or guardian's) place of residence, unless the State determines that a compelling basis (established in accordance with criteria of the Secretary), other than establishing eligibility for, or increasing the amount of, aid payable under that title, exists for the minor's living elsewhere and, in such a case, payment may be made to a concerned person on behalf of the minor and dependent child: Provided further, That during the eighteen-month period beginning with the first month in which a refugee enters the United States, a refugee to whom cash or medical assistance is available under section 412(e) of the Immigration and Nationality Act shall be ineligible for assistance under Title IV-A and XIX of the Social Security Act: Provided further, That no State shall be entitled, for fiscal year 1987, to reimbursement from amounts appropriated under this or any other Act, in excess of the amount resulting from applying the rate prescribed by section 403(a)(3)(C) of that Act and the above provisions with respect to expenditures under section 402(a)(19) or 445(f) of that Act.[1]

For making after May 31 of the current fiscal year, payments to States under titles I, IV-A and -D, X, XIV, and XVI of the Social Security Act, for the last three months of the current fiscal year, for unanticipated costs, incurred for the current fiscal year, such sums as may be [necessary.] *necessary, subject to the same limitations as apply to other amounts appropriated herein for the current fiscal year.*[2]

For making payments to States under titles I, IV-A and -D, X, XIV, and XVI of the Social Security Act for the first quarter of fiscal year [1987] *1988, and subject to the same limitations as apply to amounts appropriated herein for the current fiscal year except that the reference to payments to families in excess of 75 per centum of those required to participate in employment related activities shall be 50 per centum,* [3] [$2,193,754,000] *$2,293,615,000,* to remain available until expended. *(Department of Health and Human Services Appropriations Act, 1986; legislative action required.)*

Explanation of Language Changes

[1] This language is intended to amend the requirements of the Social Security Act. The chief changes proposed in the Act are:

--reduce the special match for State costs of development and operation of Statewide automated claims and information retrieval systems from 90 to 75 percent in 1987.

--in States where the administrative unit costs per recipient exceed 175 percent of the national median, the reimbursement would be reduced from 50 percent to 25 percent for unit costs that exceed the 175 percent threshold.

--require all employable applicants to participate in job search and all employable recipients to register and participate in job search and other work activities, with the requirement that the States have a 25 percent participation rate in such activities or lose Federal funding equal to the average Federal benefit payment per recipient times the number of recipients they have under the 25 percent participation level.

--exclude the needs of an employable caretaker relative from the AFDC benefit calculation when the youngest child reaches age 16.

--provide assistance only if minor parents are living with their parents with exceptions provided under certain conditions.

--provides that during the first 18 months of their residence in the United States, refugees will be ineligible for the payment of cash and medical assistance under the Assistance Payments and Medicaid programs. All such assistance will be consolidated under the Refugee Assistance program.

--limit the matching rate for State expenditures for the work related provisions of AFDC and the WIN demonstration authority to 50 percent rather than 90 percent.

[2] Sums provided under the indefinite appropriation to meet unanticipated costs for the last 3 months of FY 1987 will be subject to the same restrictions as other amounts appropriated by this language for FY 1987.

[3] The advance appropriation for the first quarter of FY 1988 is subject to the same restrictions as the amounts appropriated by this language for FY 1987, except that the 25 percent participation rate requirement for job search and other work activities is to be increased to a 50 percent participation rate, since in FY 1988 the program will be in the second year of implementation.

Assistance Payments

Language Analysis

Language Provision	Explanation
Provided, That notwithstanding section 403(a)(3)(B) of the Social Security Act, not more than 75 per centum of amounts expended for Statewide mechanized claims processing and information retrieval systems for the administration of a State plan approved under Title IV-A of the Act shall be included in determining the amount payable to a State under section 403 from this or any other appropriation: Provided further, That in the case of any State (other than Puerto Rico, Guam, or the Virgin Islands) in which the ratio of total amounts expended for administration of its AFDC plan for fiscal year 1987 (other than amounts expended for Statewide mechanized claims processing and information retrieval systems under Section 402(a)(30) of the Act and other than those amounts directly related (as determined by the Secretary) to activities under Section 402(a)(35) of the Act or other employment related activities) to the average monthly number of its AFDC recipients in that fiscal year (called "per recipient administrative costs") exceeds 175 per centum of the national median of all such ratios (such ratios being established by the Secretary of Health and Human Services on the basis of the best data available when the amount payable is determined, with subsequent adjustments made as necessary), no more than 25 per centum of the State's costs in excess of 175 per centum of the national median of such per recipient administrative costs may be included in determining the amount payable from this or any	This language proposes amending the Social Security Act, in order to improve the AFDC program and reduce its costs. The chief changes in the Act proposed are: --reduce the special match to the States for development and operation of Statewide automated claims and information retrieval systems from 90 to 75 percent in FY 1987. --in States where the administrative unit costs per recipient exceeds 175 percent of the national median, the reimbursement would be reduced from 50 percent to 25 percent for costs that exceed the 175 percent threshold. --require all employable applicants to participate in job search and all employable recipients to register and participate in job search and work activities, with the requirement that States have a 25 percent participation rate in such activities or lose Federal funding equal to the average Federal benefit payment per recipient times the number of recipients they have under the 25 percent participation level. --exclude the needs of an employable caretaker relative from the AFDC benefit calculation when the youngest child reaches age 16. --provide assistance only if minor parents are living with their parents, with exceptions provided under certain conditions. --provides that during the first 18 months of their residence in the United States, refugees will be ineligible for the payment of cash and medical assistance

Language Provision	Explanation
other appropriation: Provided further, That States shall require all employable applicants and recipients for aid to families with dependent children to engage in the activities specified in section 402(a)(35) of the Social Security Act, and shall require all employable recipients to engage in employment activities such as those described in section 409 of the Act or section 20 of the Food Stamp Act, as a condition of receiving assistance: Provided further, That no amounts appropriated from this or any other appropriation shall be available for federal financial participation, in the costs (on average) of assistance payments in any State, to more than 75 per centum of the number of families required to participate but not participating, in these employment- related activities: Provided further, That in calculating a family's eligibility and benefits, States shall exclude the needs of an employable caretaker relative with no dependent child under age sixteen: Provided further, That a minor who has never been married, and the dependent child for whom the minor is responsible, shall be eligible for aid under Title IV-A of the Social Security Act only if the minor is living in his parent's (or guardian's) place of residence, unless the State determines that a compelling basis (established in accordance with criteria of the Secretary), other than establishing eligibility for, or increasing the amount of, aid payable under that title exists for the minor's living elsewhere, and in such a case, payment may be made to a concerned person on behalf of the minor and dependent child: Provided further, That during the eighteen-month period beginning with the first month in which a refugee enters the United States, a refugee to whom cash or medical assistance is available	under the Assistance Payments and Medicaid programs. All such assistance will be consolidated under the Refugee Assistance program. --limit the matching rate for State expenditures for the work related provisions of AFDC and WIN demonstration authority to 50 percent rather than 90 percent.

Language Provision	Explanation
under section 412(e) of the Immigration and Nationality Act shall be ineligible for assistance under Title IV-A and XIX of the Social Security Act: Provided further, That no State shall be entitled for fiscal year 1987 to reimbursement from amounts appropriated under this or any other Act in excess of the amount resulting from applying the rate prescribed by section 403(a)(3)(C) of that Act and the above provisions with respect to expenditures under section 402(a)(19) or 445(f) of that Act.[1]	
For making, after May 31 of the current fiscal year, payments to States under titles I, IV-A and-D, X, XIV, and XVI of the Social Security Act, for the last three months of the current fiscal year, for unanticipated costs, incurred for the current fiscal year, such sums as may be [necessary.] *necessary, subject to the same limitations as apply to other amounts appropriated herein for the current fiscal year.*	Provides that: (1) Funds for the last 3 months of FY 1987 will be available as necessary in addition to the regular appropriation for FY 1987. (2) These funds will be subject to the same restrictions as provided by the appropriation language for the regular appropriation.
For making payments to States under titles I, IV-A and -D, X, XIV, and XVI of the Social Security Act for the first quarter of fiscal year [1987] *1988 and subject to the same limitations as apply to amounts appropriated herein for the current fiscal year except that the reference to payments to families in excess of 75 per centum of those required to participate in employment related activities shall instead be 50 per centum,* [$2,193,754,000] *$2,293,615,000* to remain available until expended.	This language provides that funds for the first quarter grant awards of FY 1988 will be appropriated on an advance basis. These funds will be subject to the same restrictions as the amounts appropriated for FY 1987, except that the 25 percent participation rate requirement for job search and other work activities is increased to 50 percent participation rate.

Assistance Payments Program

Amounts Available for Obligation [1/]

Appropriation	1985 Actual	1986 Current Estimate	1987 Estimate	1988 Estimate
Annual (definite)...............	$8,243,000,000	$8,954,578,000	$8,203,232,000[2/]	$2,293,615,000
Regular appropriation...........	(6,170,000,000)	(6,859,578,000)	(6,009,478,000)	(---)
First quarter advance appropriation..................	(2,073,000,000)	(2,095,000,000)	(2,193,754,000)	(2,293,615,000)
Sequester order.................	---	-1,585,000	---	---
Subtotal, adjusted appropriation.............	$8,243,000,000	$8,952,993,000	$8,203,232,000	$2,293,615,000
Indefinite current year appropriation..................	---	+950,486,000	---	---
Appropriation available from subsequent year................	+908,910,000	---	---	---
Appropriation available in prior year to fund prior year costs..........................	-580,115,000	-908,910,000	---	---
Subtotal, budget authority..	$8,571,795,000	$8,994,569,000	$8,203,232,000	$2,293,615,000
Recovery of prior year obligations.....................	+$4,765,000	---	---	---
Unobligated balance, start of year..........................	+80,324,000	+$79,159,000	+$195,000	---
Unobligated balance, end of year	-79,159,000	-195,000[3/]	---	---
Unobligated balance lapsing.....	---	---	---	---
Total obligations...........	$8,577,725,000	$9,073,533,000	$8,203,427,000	$2,293,615,000

Assistance Payment Program

Amounts Available for Obligations - Continued

1/ Total obligations exclude reimbursable administrative expenses of $103,000 in FY 1985, $103,000 in FY 1986 and $100,000 in FY 1987.

2/ The President's appropriation request for FY 1987 reflects savings from proposed legislation. If the legislation is not enacted, additional funding will be required. The table below demonstrates the funding requested under proposed legislation, the amount of savings for proposed legislation included in the request and the funding required if the legislation is not enacted:

Components of FY 1987 Appropriation	Appropriation Request Under Present Law	Proposed Legislation Savings	Appropriation Request Including Proposed Legislation
FY 1987 (Advance)......	$2,193,754,000	---	$2,193,754,000
FY 1987 (Regular)......	6,246,220,000	-$236,742,000	6,009,478,000
Total, FY 1987 Appropriation.........	$8,439,974,000	-$236,742,000	$8,203,232,000

3/ Reflects $195,000 withheld from obligations pursuant to section 515 of the Treasury-Postal Service Appropriations Act, enacted by reference in the Continuing Resolution for FY 1986, P.L. 99-190.

Assistance Payments Program

Summary of Changes

1986 Appropriation (definite)	$8,996,154,000
(First Quarter advance included above)	(2,095,000,000)
1986 Sequester order	-1,585,000
Total, estimated budget authority	$8,994,569,000
1987 Estimate, budget authority	$8,203,232,000
Net change	-$791,337,000

	1986 Base		Change from Base	
	WY's (FTE)	Budget Authority	WY's (FTE)	Budget Authority
Increase:				
A. **Built-in:**				
1. Aid to Families with Dependent Children (AFDC)	---	$7,859,729,000	---	+$252,039,000
a. Impact of economic factors, primarily State adjustments in AFDC payment standards to reflect increases in the cost-of-living			---	(+125,677,000)
b. Increasing caseload reflecting the impact of economic and demographic factors such as the unemployment rate and the population of female-headed families on AFDC caseload			---	(+44,998,000)

	1986 Base		Change from Base	
	WY's (FTE)	Budget Authority	WY's (FTE)	Budget Authority
c. Increase due to the timing of regulations - the uncashed checks regulation will have a larger impact in the initial year, FY 1986, than in FY 1987......................				(+$2,400,000)
d. Increase resulting from carryover FY 1985 budget authority available for use in FY 1986 offset by carry-over of FY 1986 budget authority which will be available for use in FY 1987.............................			---	(+78,964,000)
2. Emergency assistance--increased average payment per case due to rising costs......	---	$80,500,000	---	+1,400,000
3. State and local administration and training increase in caseload and average cost per case due to salary increases................................		998,084,000	---	+56,500,000
Subtotal, built-in increases............				+$309,939,000
B. Program:				
1. State and local administration--impact of legislative proposal which would require all applicants to participate in job search and employable recipients to work..	---	$998,084,000	---	+$200,000,000
2. Research and evaluation--increase due to effect of sequester order which reduces FY 1986 budget authority, but does not affect FY 1987...................	---	2,799,000	---	+126,000
Subtotal, program increases.............	---		---	$+200,126,000
Total, increases........................				+$510,065,000

	1986 Base		Change from Base	
	WY's (FTE)	Budget Authority	WY's (FTE)	Budget Authority
Decrease:				
A. Built-in:				
1. AFDC	---	$7,859,729,000	---	-$864,163,000
a. Savings resulting from imposing fiscal liabilities for State payment error rates higher than mandated targets			---	(-777,200,000)
b. Increased level of child support enforcement collections which partially offset Federal expenditures for AFDC benefits			---	(-31,000,000)
c. Decrease due to completion of the activity to resolve prior year State claims activity			---	(-55,963,000)
Subtotal, built-in decreases				-$864,163,000

	1986 Base WY's (FTE)	1986 Base Budget Authority	Change from Base WY's (FTE)	Change from Base Budget Authority
B. **Program:**				
1. AFDC eligibility and benefit payment legislative proposals......................	---	$7,859,729,000	---	-$421,742,000
2. State and local administration - legislative proposals to reduce matching..................................			---	-15,000,000
3. Federal administration--decreased costs as a result of reduction in staff.........	657 (635)	32,473,000	(-39) (-50)	-497,000
Subtotal, program decreases...........			-39 (-50)	-$437,239,000
Total, decreases......................			-39 (-50)	-$1,301,402,000
Net change............................			-39 (-50)	-$791,337,000

Assistance Payments Program

Budget Authority by Activity
(Budget authority in thousands)

	1985 Actual	1986 Appropriation 1/	1986 Current Estimate 2/	1987 Estimate	1988 Estimate
Maintenance Assistance:					
(a) AFDC, Total..................	$7,523,043	$7,810,809	$7,859,729	$6,825,863	$1,929,573
(1) AFDC benefit payments...	(7,874,043)		(8,245,729)	(8,020,063)	(2,040,573)
(2) Child support enforcement collections.......	(-351,000)		(-386,000)	(-417,000)	(-111,000)
(3) Excess State errors.....	(---)		(---)	(-777,200)	(---)
(b) Adult categories.............	13,413	13,743	13,368	13,368	3,342
(c) Emergency assistance.........	75,904	72,600	80,500	81,900	20,900
(d) State and local administration and training...........	914,107	1,013,423	998,084	1,239,584	338,146
(e) Administration and training--jurisdictions...............	6,616	6,077	6,616	6,616	1,654
(f) Repatriations...............	882	1,069	1,000	1,000	---
Subtotal......................	$8,533,965	$8,917,721	$8,959,297	$8,168,331	$2,293,615
Research and evaluation...........	2,570	2,925	2,799 3/	2,925	---
Federal administrative expenses...	35,260	33,932	32,473 3/	31,976	---
Total, budget authority...........	$8,571,795	$8,954,578	$8,994,569	$8,203,232 4/	$2,293,615 5/
(Obligations)...................	($8,577,828)	($8,954,578)	($9,073,533)	($8,203,232)	($2,293,615)
Total, full-time equivalents......	695	635	635	585	---

Assistance Payments Program

Budget Authority by Activty - Continued

1/ Represents the distribution of the appropriation rather than budget authority. For an explanation of differences with the FY 1986 Current Estimate see the "General Statement" section of this account.

2/ For explanation of the difference between FY 1986 Appropriation and FY 1986 Current Estimate, see section entitled "Revision to the FY 1986 Budget" in the General Statement of this account.

3/ Reflects a reduction of $126,000 in research and $1,459,000 in Federal administrative expenses pursuant to the Balanced Budget and Emergency Control Act of 1985, P.L. 99-177.

4/ The President's appropriation request for FY 1987 reflects savings from proposed legislation. If the legislation is not enacted, additional funding will be required. The table below demonstrates the funding requested under proposed legislation, the amount of savings for proposed legislation included in the request and the funding required if the legislation is not enacted:

Components of FY 1987 Appropriation	Appropriation Request Under Present Law	Proposed Legislation Savings	Appropriation Request Including Proposed Legislation
FY 1987 (Advance)......	$2,193,754,000	---	$2,193,754,000
FY 1987 (Regular)......	6,246,220,000	-$236,742,000	6,009,478,000
Total, FY 1987 Appropriation.........	$8,439,974,000	-$236,742,000	$8,203,232,000

5/ The FY 1988 estimate represents the amount of the advance appropriation required to meet all States requirements for first quarter FY 1988 grants less savings from proposed legislation. The advance appropriation for FY 1988 reflects savings from proposed legislation. If the legislation is not enacted, additional funding will be required. The table below demonstrates the funding requested under proposed legislation, the amount of savings for proposed legislation included in the request and the funding required if the legislation is not enacted:

	Appropriation Request Under Present Law	Proposed Legislation Savings	Appropriation Request Including Proposed Legislation
FY 1988 Advance appropriation........	$2,351,542,000	-$57,927,000	$2,293,615,000

Assistance Payments Program
Budget Authority by Object

	1986 Current Estimate	1987 Estimate	Increase or Decrease	1988 Estimate
Full-time equivalent of full-time permanent positions.....	625	579	-46	---
Full-time equivalent of all other positions..........	10	6	-4	---
Total compensable workyears...	657	618	-39	---
Average ES salary.............	$66,878	$66,978	+$100	---
Average GS grade..............	10.98	10.98	---	---
Average GS salary.............	$34,653	$35,157	+$504	---
Personnel compensation:				
Permanent positions..........	$21,684,000	$20,376,000	-$1,308,000	---
Positions other than permanent..................	433,000	413,000	-20,000	---
Other personnel compensation...............	500,000	764,000	+264,000	---
Subtotal, personnel compensation.............	$22,617,000	$21,553,000	-$1,064,000	---
Personnel benefits............	2,863,000	2,690,000	-173,000	---
Travel and transportation of persons.................	696,000	1,024,000	+328,000	---
Transportation of things......	53,000	53,000	---	---

	1986 Current Estimate	1987 Estimate	Increase or Decrease	1988 Estimate 2/
Rent, communications and utilities:				
Rent........................	$1,738,000	$1,836,000	+$98,000	---
Other rents, communications, and utilities..............	1,209,000	1,227,000	+18,000	---
Printing and reproduction....	110,000	122,000	+12,000	---
Other services...............	2,601,000	2,755,000	+154,000	---
Supplies and materials.......	160,000	160,000	---	---
Equipment....................	426,000	556,000	+130,000	
Grants, subsidies and contributions...............	8,962,096,000	8,171,256,000	-790,840,000	$2,293,615,000
Total, budget authority by object..................	$8,994,569,000 1/	$8,203,232,000	-$791,337,000	$2,293,615,000

1/ Reflects a reduction of $1,585,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

2/ The FY 1988 estimate represents the amount of the advance appropriation required to meet all States' requirements for first quarter FY 1988 grants less savings from legislative proposals.

Assistance Payments Program

Authorizing Legislation

	1986 Amount Authorized	1986 Current Estimate	1987 Amount Authorized	1987 Request	1988 Request 1/
Titles I, IV-A and -D, X, XI, XIV, and XVI of the Social Security Act and the Act of July 5, 1960 (Public Law 86-571)........	Indefinite 2/	$8,952,993,000 3/	Indefinite 2/	$8,203,232,000 4/	$2,293,615,000 5/

1/ The FY 1988 estimate represents the amount of the advance appropriation required to meet all States' requirements for first quarter FY 1988 grants less legislative savings proposed.

2/ There are two limitations on the Assistance Payments appropriation:

a. Section 1113 of the Social Security Act provides for a limitation of $300,000 annually to repatriated U.S. nationals who return because of destitution, illness or international crisis. This limitation does not apply to U.S. nationals who return because of mental illness.

b. Section 1108(a) of the Social Security Act provides for a limitation on payments to Puerto Rico, Guam and the Virgin Islands under titles I, X, XIV, and XVI and under part A of title IV (exclusive of any amounts on account of services and items to which section 1108(b) applies). The limitations, which became permanent with the enactment of Public Law 96-272, are as follows: $72,000,000 for Puerto Rico, $2,400,000 for the Virgin Islands and $3,300,000 for Guam.

3/ Reflects a reduction of $1,585,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

4/ The President's appropriation request for FY 1987 reflects savings from proposed legislation. If the legislation is not enacted, additional funding will be required. The table below demonstrates the funding requested under proposed legislation, the amount of savings for proposed legislation included in the request and the funding required if the legislation is not enacted:

Assistance Payments Program

Authorizing Legislation - Continued

Components of FY 1987 Appropriation	Appropriation Request Under Present Law	Proposed Legislation Savings	Appropriation Request Including Proposed Legislation
1987 (Advance)...............	$2,193,754,000	---	$2,193,754,000
1987 (Regular)...............	6,246,220,000	-$236,742,000	6,009,478,000
Total, 1987 appropriation...............	$8,439,974,000	-$236,742,000	$8,203,232,000

5/ The FY 1988 estimate represents the amount of the advance appropriation required to meet all States requirements for first quarter FY 1988 grants less savings from proposed legislation. The advance appropriation for FY 1988 reflects savings from proposed legislation. If the legislation is not enacted, additional funding will be required. The table below demonstrates the funding requested under proposed legislation, the amount of savings for proposed legislation included in the request and the funding required if the legislation is not enacted:

	Appropriation Request Under Present Law	Proposed Legislation Savings	Appropriation Request Including Proposed Legislation
FY 1988 Advance appropriation....	$2,351,542,000	-$57,927,000	$2,293,615,000

Assistance Payments Program 1/

Table of Estimates and Appropriations

Fiscal Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1979	$6,852,056,000	$6,665,305,000	$6,665,305,000	$6,665,305,000[2]
1980	6,868,210,000	7,146,210,000	7,146,210,000	7,146,210,000[3]
1981	7,896,689,000	8,145,689,000		9,026,471,000
1982	7,232,643,000	7,422,983,000	7,421,124,000	7,413,884,000
1983	6,182,476,000	6,948,976,000	8,348,548,000[4]	8,348,548,000[4]
1984	7,129,784,000	7,129,784,000	8,010,000,000	8,010,000,000[5]
1985	6,944,025,000	6,944,025,000	8,243,000,000	8,243,000,000
1986	8,773,578,000	8,774,578,000	8,954,578,000	8,954,578,000
1986 Indefinite	950,486,000			
1986 Sequester Order	-1,585,000			
1987	8,203,232,000[6]			
1988	2,293,615,000[7]			

1/ Prior to FY 1979 the Assistance Payments funds were included in the Public Assistance appropriation, Social and Rehabilitation Service.

2/ Excludes reduction of $37 million in appropriated budget authority for compliance with section 304 of P.L. 96-38.

3/ Excludes reduction of $350 million in appropriated budget authority for compliance with section 201 of P.L. 96-123.

4/ Excludes $123,500,000 from the FY 1983 advance appropriation which funded child support enforcement State and local administrative costs.

Table of Estimates and Appropriations - Continued

5/ Includes $122,300,000 later transferred to the Food Stamp appropriation for the costs of certifying food stamp eligibility of AFDC households.

6/ The total FY 1987 assistance payments appropriation request is $8,203,232,000. This total is the sum of the FY 1987 advance appropriation previously enacted ($2,193,754,000) and the amount requested at this time ($6,009,478,000). The President's appropriation request for FY 1987 reflects savings from proposed legislation. If the legislation is not enacted, additional funding will be required. The table below demonstrates the funding requested under proposed legislation, the amount of savings for proposed legislation included in the request and the funding required if the legislation is not enacted:

Components of FY 1987 Appropriation	Appropriation Request Under Present Law	Proposed Legislation Savings	Appropriation Request Including Proposed Legislation
FY 1987 (Advance).......	$2,193,754,000	---	$2,193,754,000
FY 1987 (Regular).......	6,246,220,000	-$236,742,000	6,009,478,000
Total, FY 1987 Appropriation..........	$8,439,974,000	-$236,742,000	$8,203,232,000

7/ The FY 1988 estimate represents the amount of the advance appropriation required to meet all States requirements for first quarter FY 1988 grants less savings from proposed legislation. The advance appropriation for FY 1988 reflects savings from proposed legislation. If the legislation is not enacted, additional funding will be required. The table below demonstrates the funding requested under proposed legislation, the amount of savings for proposed legislation included in the request and the funding required if the legislation is not enacted:

	Appropriation Request Under Present Law	Proposed Legislation Savings	Appropriation Request Including Proposed Legislation
FY 1988 Advance appropriation.......	$2,351,542,000	-$57,927,000	$2,293,615,000

Assistance Payments Program

Justification

Account Summary

	1986 Current Estimate	1987 Estimate	Increase or Decrease	1988 Estimate
Assistance Payments:				
1. **Maintenance assistance......**	$8,959,297,000	$8,168,331,000	-$790,966,000	$2,293,615,000
2. **Research and evaluation.....**	2,799,000[1]	2,925,000	+126,000	---
3. **Federal administrative expenses....................**	32,473,000[1]/[2]/[3]	31,976,000[3]	-497,000	---
Total, budget authority.....	$8,994,569,000	$8,203,232,000	-$791,337,000	$2,293,615,000
Full-time equivalents...........	635	585	-50	---
Total, Workyears................	657	618	-39	---

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[1] **Reflects a reduction of $126,000 in research and $1,459,000 in Federal administrative expenses pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.**

[2] **Includes $195,000 withheld from obligation pursuant to section 515 of the Treasury-Postal Service Appropriations Act enacted by reference in the Continuing Resolution for FY 1986 (P.L. 99-190).**

[3] **Excludes $100,000 of reimbursable work performed by SSA employees for other Federal agencies.**

General Statement

The Social Security Administration is responsible for Federal administration of the assistance payments program which provides funds (through grants and contracts) to State and local governments for diverse activities related to public assistance to the needy. The largest activity is financing for the Federal share of costs in the aid to families with dependent children (AFDC) program. AFDC basic benefits are for needy children deprived of parental support by the death, disability, or continued absence of the parent from the home. The assistance payments programs are State and local programs administered by State welfare agencies under individual plans developed by each State in conformity with Federal requirements and regulations. Assistance standards and scope of coverage are determined by the State. These programs are financed from Federal, State and local funds. The Social Security trust funds are not used for assistance provided in this appropriation. Estimates of FY 1987 shared costs are shown below:

	Federal Share	State and Local Share	Total Costs
Maintenance assistance	$8,168,526,000	$8,155,932,000	$16,324,458,000
Research and evaluation............	2,925,000	---	2,925,000
Federal administrative expenses....	31,976,000	---	31,976,000
Total..........................	$8,203,427,000	$8,155,932,000	$16,359,359,000

Major Budget Emphases for FY 1986 and FY 1987

The budget estimates for the programs funded by the assistance payments appropriation reflect actual FY 1985 program experience and the impact of FY 1987 President's budget economic assumptions. A discussion of the FY 1986 estimates is included in this statement under "Revisions to the FY 1986 Budget". Major budget emphases, which will be discussed in more detail later in the statement, are as follows:

--the budget request includes the impact of proposed legislation that reduces costs in FY 1987 by $236,742,000.

--the budget request reflects a fiscal disallowance policy based on the Michel Amendment to the 1980 appropriation for the Department of Health, Education and Welfare and the error rate tolerance set in the Tax Equity and Fiscal Responsibility Act of 1982.

Proposed Legislation

The President's appropriation request of $8,203,232,000 for this account includes $8,439,974,000 under current law less $236,742,000 in savings from proposed legislation, as shown in the next table:

Current law appropriation request	$8,439,974,000
Impact of legislative changes:	
--Work opportunities program - require over a period of 3 years that 75 percent of employable applicants participate in job search and 75 percent of employable recipients participate in job search and other work activities:	
o Federal Benefit Savings	-252,000,000
o Administrative Costs	+200,000,000
--Exclude the needs of an employable parent from the AFDC benefit calculation when the youngest child reaches age 16 and essential person limitation	-101,000,000
--Provide assistance to minor parents only when they are living with their parents or meet certain conditions	-20,000,000
--Phase out enhanced matching for Statewide information systems and reduce Federal matching for those administrative expenditures in excess of 175 percent of the national median of such costs	-15,000,000
--Consolidation of Refugee Cash Assistance	-48,742,000
Subtotal, Legislative changes	-$236,742,000
Total, budget authority for FY 1987	$8,203,232,000

AFDC Error Rates and State Fiscal Liability

In action on the FY 1979 Supplemental Appropriation Act and in the Michel Amendment to the FY 1980 appropriations for the Department of Health, Education and Welfare, the Congress directed that States reduce AFDC error rates to 4 percent by September 30, 1982 and provided interim target error rates beginning with the FY 1981 reporting period. The Tax Equity and Fiscal Responsibility Act of 1982 specified that States should achieve a target error rate of 4 percent in FY 1983 and 3 percent in subsequent years. The budget uses actual error rates achieved by the States for FY 1982 through FY 1984 and assumes that some States will be unable to achieve targets for subsequent years. The budget estimates for AFDC benefits include the impact of fiscal liabilities for errors in excess of the target error rates.

States have made improvements in their error rates and are continuing to do so. The national error rate for FY 1984 was 6 percent, down from 6.5 percent in FY 1983. We cannot predict how any individual State will respond to the more stringent standards. Therefore, for purposes of this budget, we have used projected national average error rates for FY 1985 and subsequent years. We believe that States will continue to improve their payment accuracy as shown in the table below.

Currently, State fiscal liability is calculated based on the period in which the error rate occurred, but disallowances are not imposed until later. Time is required to complete the quality control sample, to compile the statistical data, to negotiate any differences with the States and to complete the State appeal process. Any funds due are collected after resolution of this process. The budget estimates assume the fiscal liabilities will be collected 2 years after the reporting period for which they apply starting with the liabilities for FY 1985 which will be collected in FY 1987. Furthermore, during the initial phase, there have been some additional delays in the collection of liabilities. For example, the $777.2 million in fiscal liabilities budgeted for FY 1987 represents estimated liabilities for FY 1981 through FY 1985 reporting periods.

The projected error rates upon which the budget is based, the mandated target error rates, the estimated fiscal liability and the year in which the liabilities are projected to be collected follows:

AFDC Error Rates and Fiscal Liability and Disallowance Collections

($ in millions)

	Actual Projected Error Rates	Mandated Target	Estimated Actual Liability	Liability Collections
FY 1981 (actual)............	7.6%	7.6%	$69.2	---
FY 1982.....................	6.9%	5.8%	96	---
FY 1983.....................	6.5%	4.0%	184	---
FY 1984.....................	6.1%	3.0%	228	---
FY 1985.....................	5.7%	3.0%	200	---
FY 1986.....................	5.3%	3.0%	178	---
FY 1987.....................	5.0%	3.0%	160	$777.2
FY 1988.....................	4.7%	3.0%	142	178.0

States which do not meet their targets are potentially subject to fiscal liabilities. However, the Michel Amendment regulations allow for full or partial waivers of liabilities based on good faith efforts by the State and all States with potential liabilities have requested waivers. The budget assumes collection of all potential liabilities starting with FY 1982.

Programmatic and Economic Assumptions

The budget estimates for FY 1986 and FY 1987 are consistent with the economic assumptions, especially the Consumer Price Index (CPI) and unemployment rate projections, on which the FY 1987 Federal budget is based. The estimates also reflect actual program experience in FY 1985. Many States regularly adjust benefit payments to account for prior year CPI changes while other States follow a less consistent pattern. Because of State and local constraints, however, the estimates assume that increases in the overall average monthly payment levels will not keep pace with CPI changes.

The budget includes projections for child support enforcement collections based on estimates provided to the Office of Child Support Enforcement by the States. The Federal share of collections increase from $351,000,000 in FY 1985 to $386,000,000 in FY 1986 and $417,000,000 in FY 1987. The increases reflect primarily the impact of the mandatory State practices and the new incentive structure required by the Child Support Enforcement Amendments of 1984 (P.L. 98-378) and the Federal income tax refund offset program, established by the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35). The mandatory State practices require States to institute wage withholding, expedited legal processes, and State income tax refund offsets for delinquent cases, among other features. The incentive structure rewards States for more cost effective operations. The Federal income tax refund offset program provides for the collection of past due child support through the withholding of Federal income tax refunds from absent parents whose families are receiving AFDC. A more detailed discussion of CSE collections can be found in the justification for the Child Support Enforcement appropriation submitted by the Office of Child Support Enforcement.

Other Areas of Budget Emphasis

Collection of Repatriation Loans

An automated system for collection of assistance provided to repatriates is in the final stages of development. When the total cost of assistance is established this system will issue notification of the obligation to repay and will send follow-up letters when necessary. The total amount of receivables under the repatriate program was $867,648 at the end of FY 1985.

Regulatory Initiatives

The budget estimates include savings as a result of three regulatory initiatives:

1. Least costly regulations--this package of regulations promotes fiscal savings, reduces the paperwork burden and increases State flexibility. The regulation which will provide the most significant cost savings will permit States to vary eligibility redeterminations based on error-prone profiling.

2. Refund of Federal share of uncashed and cancelled checks--This regulation published as a final rule on September 17, 1985, requires States to refund the Federal share of cancelled checks and uncashed checks outstanding for more than 180 days.

3. Refund of Federal share of duplicate checks--This regulation would require States to refund the Federal share of duplicate checks, either replacement checks cashed by eligible recipients or original checks cashed by an unauthorized person.

Revisions to the FY 1986 Budget

The table below highlights changes to the FY 1986 budget estimates since passage of the FY 1986 Appropriations Act. The revisions, which reflect FY 1985 actual experience and revised economic assumptions, are summarized in the table below:

	FY 1986		
	Appropriation	Current Estimate	Change
Maintenance assistance:			
(a) AFDC	$7,224,000,000	$7,938,563,000	+$714,563,000
(b) Adult categories	13,743,000	13,368,000	-375,000
(c) Emergency assistance	70,100,000	80,500,000	+10,400,000
(d) State and local administration and training	982,416,000	998,084,000	+15,668,000
(e) Administration and training--jurisdictions	6,077,000	6,616,000	+539,000
(f) Repatriation	1,069,000	1,000,000	-69,000
Subtotal	$8,297,405,000	$9,038,131,000	+$740,726,000
Research and evaluation	2,925,000	3,124,000	+199,000
Federal administrative expenses	33,932,000	32,278,000	-1,654,000
Total, obligations	$8,334,262,000	$9,073,533,000	+$739,271,000
Additional appropriation available from current year	---	-950,486,000	-950,486,000
Funds available in FY 1985	+620,316,000	+908,910,000	+288,594,000
Unobligated balance, start of year	---	-79,159,000	-79,159,000
Unobligated balance, available end of year	---	+195,000	+195,000
Total, FY 1986 adjusted appropriation	$8,954,578,000	$8,952,993,000	-1,585,000
Sequestered amount	---	+1,585,000	+1,585,000
Total, FY 1986 appropriation	$8,954,578,000	$8,954,578,000	---

AFDC (+$714,563,000)

The increase results from an increase in average benefit payments and the delay in collection of fiscal liabilities for excess State errors.

Adult Categories (-$375,000)

Adult categories together with the other welfare benefit payments provided to the territories is subject to the limitation on such payments provided by section 1108(a) of the Social Security Act. The decrease for adult categories results from the fact that the total payments to the territories under the programs covered by section 1108(a) have reached their cap.

Emergency Assistance (+$10,400,000)

The increase in emergency assistance reflects the higher level of actual costs in FY 1985 and the effect of applying this more recent experience to the projection of average payment per case.

State and Local Administration and Training (+$15,668,000)

The increase in the State and local administration and training costs primarily reflects an increase in the allocation of total public welfare costs to the AFDC program.

Administration and Training--Jurisdictions (+$539,000)

The increase in costs for these activities in Guam, Puerto Rico and the Virgin Islands in FY 1986 is based on actual FY 1985 data.

Repatriation (-$69,000)

The decrease in repatriation costs is based on an analysis of actual FY 1985 data.

Research and Evaluation (+$199,000)

The increase is due primarily to funding of the continuation of the Electronic Industries Foundation (EIF) demonstration project--a project designed to use EIF's extensive private industry employment placement network to place Social Security disability beneficiaries into competitive employment. The EIF project will be funded from FY 1985 unobligated balances. Also reflects the sequester of $126,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

Federal Administrative Expenses (-$1,654,000)

The decrease is due to the effect of the sequester order on this activity (-$1,459,000) and the withholding of $195,000 from obligations pursuant to section 515 of the Treasury-Postal Service Appropriations Act.

Program Accomplishments

The assistance payments program provides funds (through grants and contracts) to State and local governments for diverse activities related to public assistance to the needy. The largest activity is financing for the Federal share of costs in the aid to families with dependent children (AFDC) program. The tables below include data on the average number of AFDC recipients and cases and Federal share of AFDC benefit payments:

Average Monthly AFDC Caseload (Present Law)

	Fiscal Year				
	1982	1983	1984	1985	1986 est.
Recipients..........	10,424,000	10,641,000	10,835,000	10,794,000	10,790,000
Families............	3,567,000	3,646,000	3,720,000	3,685,000	3,691,000

AFDC Benefit Payment Outlays *

	Fiscal Year				
	1982	1983	1984	1985	1986 est.
Federal share......	$6,882,926,000	$7,313,000,000	$7,755,944,000	$7,909,472,000	$8,324,888,000

* Excludes child support enforcement collections.

Assistance Payments Program

Maintenance Assistance

Authorizing Legislation: Titles I, IV-A and -D, X, XI, and XVI of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease	1988 Estimate
Aid to families with dependent children...............	$7,859,729,000	$6,825,863,000	(-$1,033,866,000)	$1,929,573,000
a. Benefit payments...........	(8,245,729,000)	(8,020,063,000)	(-225,666,000)	(2,040,573,000)
b. Child support enforcement collections................	(-386,000,000)	(-417,000,000)	(-31,000,000)	(-111,000,000)
c. Error rate sanctions.......		(-777,200,000)	(-777,200,000)	(---)
Adult categories.................	13,368,000	13,368,000	---	3,342,000
Emergency assistance.............	80,500,000	81,900,000	+1,400,000	20,900,000
State and local administration and training.....................	998,084,000	1,239,584,000[1]	+241,500,000	338,146,000
Administration and training--jurisdictions....................	6,616,000	6,616,000	---	1,654,000
Assistance to repatriated U.S. nationals.......................	1,000,000	1,000,000	---	---
Total, budget authority........	$8,959,297,000	$8,168,331,000	$790,966,000	$2,293,615,000[1]

1/ The FY 1988 estimate represents the amount of the advance appropriation required to meet all States' requirements for first quarter FY 1988 grants less savings from proposed legislation. The advance appropriation for FY 1988 reflects savings from proposed legislation. If the legislation is not enacted, additional funding will be required. The table below demonstrates the funding requested under proposed legislation, the amount of savings for proposed legislation included in the request and the funding required if the legislation is not enacted:

	Appropriation Request Under Present Law	Proposed Legislation Savings	Appropriation Request Including Proposed Legislation
FY 1988 Advance appropriation.........	$2,351,542,000	-$57,927,000	$2,293,615,000

Purpose and Method of Operation

Aid to Families with Dependent Children

Under Federal maintenance assistance programs, payments are made to the States to assist them in providing needy persons with resources to meet their daily needs. Most of the payments are made under the aid to families with dependent children (AFDC) program, which is jointly financed by Federal, State, and local funds. The Federal share is determined by a formula established by Congress and is estimated to be 54.4 percent of total expenditures in FY 1986. In compliance with Federal/State agreements and plans, Federal grants are issued to the States quarterly, based on anticipated requirements, with subsequent adjustments made after the quarter ends based on actual experience. Child suppport enforcement (CSE) collections are included as an offset to AFDC benefit payments. See the child support enforcement appropriation justification, submitted by the Office of Child Support Enforcement, for the discussion of CSE collections.

Adult Categories

The maintenance assistance programs for the aged, blind and disabled were federalized under the supplemental security income program on January 1, 1974. A small residual program, however, remains for the residents of Puerto Rico, Guam, and the Virgin Islands. Grants are issued to Puerto Rico, Guam and the Virgin Islands in a manner similar to the AFDC program to enable these entities to provide financial assistance to the needy aged, blind, and the permanently and totally disabled. The grants to Puerto Rico, Guam and the Virgin Islands are subject to an overall cap under the AFDC and adult assistance programs, as shown in the "Authorizing Legislation" exhibit for this appropriation.

Emergency Assistance

This program was established to provide financial assistance and social services to needy families with children under age 21 to meet emergency needs. Assistance may be in the form of cash or such items as food, clothing, rent, utilities, or medical care provided or paid for by the agency administering the program. The Federal Government shares 50 percent of these costs with the States and other jurisdictions which participate in this program.

State and Local Administration and Training

Under current law Federal grants provide financing for 50 percent of State and local administrative costs related to the administration of the maintenance assistance programs. In addition, Federal grants provide 90 percent of the cost of development, implementing and enhancement of automated claims and information retrieval systems.

Administration and Training--Jurisdictions

This activity includes funds for administration and training costs related to titles I, X, XIV, and XVI in Puerto Rico, Guam and the Virgin Islands. There is an overall cap on grants to Puerto Rico, Guam and the Virgin Islands under the AFDC and adult assistance programs, as shown in the "Authorizing Legislation" exhibit for this appropriation.

Assistance to Repatriated U.S. Nationals

This program provides assistance to U.S. citizens returning from foreign countries who have been certified by the Department of State to be destitute or ill. Individuals receiving assistance are expected to repay (subject to waivers for inability to pay) the cost of such assistance.

Rationale for the Budget Request

Aid to Families with Dependent Children (AFDC)

The request for FY 1987 is 13.2 percent lower than the FY 1986 estimate. The FY 1987 request for AFDC benefits includes the impact of the current national economic assumptions. The following table summarizes the components of change from the FY 1986 estimate to the FY 1987 budget request:

		Amount of Change
1.	FY 1986 estimate	$7,859,729,000
2.	Components of Change:	
a.	Economic factors and demographic changes	+$170,675,000
b.	Increased savings in FY 1987 from imposition of fiscal liabilities for error rates higher than the mandated targets for the FY 1981 through FY 1985 reporting periods	-777,200,000
c.	Decreased savings from regulatory initiatives implemented in FY 1986	+2,400,000
d.	Proposed legislation--AFDC benefits	-421,742,000
e.	Increased child support enforcement collections	-31,000,000
g.	Carry-over that was available in FY 1986 reducing budget authority required in FY 1986 in comparison to the impact of carryover on the budget authority required for FY 1987	+23,001,000
	Subtotal, changes	-$1,033,866,000
3.	FY 1987 budget authority	$6,825,863,000

The following paragraphs explain the components of change for AFDC payments:

A. Economic Factors and Demographic Changes (+$170,675,000)

1. Inflation

Payments to eligible families under the AFDC program are strongly affected by inflation. Many States periodically adjust their AFDC payment allowances to reflect changes in the cost-of-living. Some States link payment levels for a fiscal year to changes in the Consumer Price Index (CPI) for the preceding calendar year. Other States adopt less rigorous criteria, with benefit payment levels increasing more than prior year CPI growth in some years and less in others. The impact of inflation on FY 1987 is evidenced by a 1.5 percent increase in the average payment per case over the FY 1986 level.

AFDC Average Monthly Payments--Data and Assumptions 1/

	FY 1986 Current Estimate	FY 1987 Estimate	Change
Families..........................	$345.29	$350.56	+$5.27
Recipients........................	$118.13	$120.20	+$2.07
CPI (1967=100)....................	329.42	343.13	+13.71
Payment Error Rate 2/............	5.3%	5.0%	-.3%

1/ Includes impact of reduction in State error rate levels.

2/ Represents percentage of total payments to ineligibles and overpayments to eligibles.

2. Caseload--Unemployment and Demographic Changes (Including the Impact of Error Rate Reductions)

The caseload is affected by changes in the unemployment rate, family composition (demographic changes), and quality control initiatives with their resulting impact on removing ineligibles from the rolls. The number of families on the AFDC rolls is expected to increase due in part to the steady growth in the number of single-parent families who become eligible to participate in the program. For example, the number of families headed by females (the major source for the AFDC caseload) is projected to reach 10,727,000 during FY 1987, an increase of 298,000 such households over the prior year.

AFDC Caseload (Average Monthly Number)--Data and Assumptions 1/

	FY 1986 Current Estimate	FY 1987 Estimate	Change
Families...........................	3,691,000	3,711,000	+20,000
Recipients.........................	10,790,000	10,822,000	+32,000
Female-Headed Families..............	10,429,000	10,727,000	+298,000
Unemployment Rate..................	6.9%	6.7%	-2.9%
Case Error Rate....................	3.9%	3.7%	-5.1%

1/ Includes impact of reduction in State error rate levels.

B. Fiscal Liabilities (-$777,200,000)

Fiscal liabilities that would be imposed on States under present law for payment error rates above the target rates mandated by the Michel Amendment are discussed in the "General Statement" for this appropriation. This budget assumes collection in FY 1987 of $777,200,000 in fiscal liabilities for the FY 1981 through FY 1985 reporting periods.

C. Regulatory Initiatives (+$2,400,000)

The three regulatory initiatives included in this request--the refund of the Federal share of uncashed and cancelled checks; the refund of the Federal share of duplicate checks; and the least costly regulations--result in savings of $42,400,000 in FY 1986 and $40,000,000 in FY 1987 for a net decrease in savings of $2,400,000 for FY 1987 in comparison with FY 1986. These regulations are discussed in greater detail in the "General Statement."

D. Proposed Legislation--AFDC Benefits (-$421,742,000)

A total of $421,742,000 in savings is expected to be realized in 1987 from legislative proposals affecting AFDC benefits. These proposals are described below:

1. Work Opportunities and Welfare Program - States will be required gradually over 3 years to have 75 percent of all employable adult AFDC applicants participate in job search and 75 percent of all employable AFDC recipients participate in job search and work activities. The objective of this proposal is to reduce welfare dependency by improving the employment potential of program participants.

   States will have flexibility to structure their requirements for both job search (which could include making contacts with employers, participation in job clubs, or other job referral activities) and work activities (which could include Community Work Experience programs, work supplementation or on-the-job training).

2. End Caretaker Benefits When Youngest Child Turns Age 16 and Essential Person Limitation - The needs of an employable parent will be excluded in calculating AFDC benefits when the youngest child reaches age 16. This is similar to the policy which terminates benefits for parents with children in their care when the youngest child reaches age 16 under the Social Security old-age, survivors', and disability insurance programs. This proposal recognizes that these adults are sufficiently free from child care responsibilities to pursue employment. This proposal would also limit payment of benefits for essential persons to individuals whose presence is necessary to allow the caretaker relative to work or where the caretaker is incapacitated.

3. Require that Single Minor Parents Must Live With Their Parents to be Eligible for AFDC - States will be required to withhold eligibility from minor parents who have never been married and who establish separate households, unless a State finds that: (1) the minor parent has no living parent or guardian whose whereabouts are known; (2) the health and safety of the minor parent and child would be jeopardized if they lived with the parent or guardian; or (3) the minor has lived apart from the parent or guardian at least a year prior to the birth of the child or claiming of aid.

4. Refugee Assistance - This proposal would consolidate all cash assistance to refugee recipients in the Refugee Assistance program.

E. Increased Child Support Collections (-$31,000,000)

The increase in child support collections results primarily from the mandatory State practices and the new incentive structure provided by the Child Support Enforcement Amendments of 1984 (P.L. 98-378) and the Federal income tax refund offset program, established by the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35). These items are discussed in greater detail under the "Programmatic and Economic Assumptions" section of the Assistance Payments General Statement.

F. Carryover That Was Available in FY 1986 (+$23,196,000)

In FY 1986 there is an estimated unobligated balance of $79,159,000 available at the start of the year. These funds reduce the amount of new budget authority required to fund FY 1986 costs, except that $55,963,000 is projected to be needed to settle prior year claims. In FY 1987 there is a projected carryover of $195,000 resulting from obligations withheld in FY 1986 pursuant to section 515 of the Treasury-Postal Service Appropriations Act. The net result is that there is $23,001,000 more available as an unobligated balance reducing budget authority in FY 1986 than in FY 1987.

Emergency Assistance

The emergency assistance program currently is in effect in about half of the States and jurisdictions. The FY 1987 budget assumes a continuation of the program in the States currently participating. The Federal share of these costs increases from $80,500,000 to $81,900,000, an increase of 1.7 percent, which is less than the expected CPI growth of 4.2 percent for FY 1987 over FY 1986. No increase in caseload is projected. The average monthly number of families participating will remain at about 32,200.

State and Local Administration and Training

In FY 1987, the Federal share of State and local administration and training costs is projected to increase by $241,500,000 to $1,239,584,000.

Approximately $56,500,000 of this increase is attributable to the increased AFDC caseload (20,000) and an increase in the October CPI (4.2 percent) which is used to project State and local payroll costs.

Another $185,000,000 in additional costs is projected from two legislative proposals which will affect State and local administrative costs.

A savings of $15 million is projected from a proposed legislative change which would reduce AFDC special matching for Statewide systems development and limit administrative cost reimbursement to high cost States. This proposal would reduce AFDC special matching for Statewide Information Systems Development from 90 to 75 percent for the 1987-1989 period, and to 50 percent thereafter. It would also reduce AFDC reimbursement for high cost States--those with per recipient administrative costs exceeding 175 percent of the national median would have their matching rate reduced from 50 percent to 25 percent for costs in excess of the 175 percent threshold.

An increase of $200,000,000 is needed to fund the administrative costs of the Administration's proposed Work Opportunities program, one of the legislative proposals for Assistance Payments. Under this proposal, all employable applicants and recipients of AFDC will be required to participate in job search and all employable recipients to register and participate in work activities. Additional administrative costs of this program will be provided at the current 50 percent matching rate.

FY 1988 Estimates

The FY 1988 estimate is based on the same set of assumptions as the FY 1987 estimates and represents the amount of the advance appropriation required to meet all States' requirements for grants for the first quarter of FY 1988 including a reduction of $57,927,000 in savings from enactment of the legislative proposals previously discussed.

Assistance Payments Program

Research and Evaluation

Authorizing Legislation: Section 1110 and 1115 of title XI of the Social Security Act.

	1986 Current Estimate 1/	1987 Estimate	Increase or Decrease
Assistance payments programs.......	$2,459,000	$2,650,000	+$191,000
Other SSA programs.................	340,000	275,000	-65,000
Total, budget authority..........	$2,799,000	$2,925,000	+$126,000

1/ Reflects a reduction of $126,000 in 1986 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

Purpose and Method of Operation

Funds for this activity are requested to finance research and experimental projects that explore new ways to prevent and reduce dependency on financial assistance, detect fraud and reduce errors, and improve the administration and effectiveness of programs carried out under the Social Security Act. The Section 1110 (Cooperative Research and Demonstration Projects) and Section 1115 (State Demonstrations or Demonstration Projects) programs are conducted through a series of Federal grants, contracts and cooperative agreements. They provide research grants to nonprofit foundations, for profit entities and academic institutions (1110) and State governments (1110 and 1115). Section 1115 permits waivers of Section 402 of the Social Security Act for the AFDC program to carry out demonstration projects.

Rationale for the Budget Request

The table below illustrates the major areas of emphasis and levels of funding of Sections 1110 and 1115 research and demonstration projects:

Sections 1110 and 1115 Projects for FY 1986 and FY 1987

	1986 Estimate	1987 Estimate	Increase or Decrease
AFDC administrative improvements..........	$300,000	$300,000	---
AFDC programmatic improvements............	2,159,000	2,350,000	+$191,000
OASDI and SSI extramural research grants..	340,000	275,000	-65,000
Total, program costs....................	$2,799,000	$2,925,000	+$125,000

A description of program areas and projects planned for FY 1986 and FY 1987 follows:

AFDC Administrative Improvements

The major thrust in this area is to assist States in improving the management of the AFDC program. Scheduled projects include demonstrations of:

--maximizing cost-effectiveness of overpayment recovery,
--new uses of automated techniques to improve management of error reduction and computer matching to determine AFDC eligibility.

AFDC Programmatic Improvements

The major thrust in this area is to conduct research and demonstration projects that develop knowledge of program activities which reduce welfare dependency and promote self-support through employment. Scheduled projects include demonstrations of:

--comprehensive work program for AFDC recipients in a major urban area,
--work programs designed for long-term AFDC dependents,
--maximizing the effectiveness of work programs, and
--job readiness enhancements for AFDC work program participants.

OASDI and SSI Research

These grants support projects which stress the primary concerns of social insurance and social welfare. The results of the studies are used as reference material in policy considerations affecting social insurance and social welfare.

--In FY 1986 funds are being used to support the Electronic Industries Foundation Project. This project helps some Social Security disability beneficiaries return to work by finding jobs for them in the electronics industry.

--In FY 1987 funds will be used to study problems of the very aged; the foreign experience in dealing with long-term care issues, and comparison between Social Security and private retirement alternatives.

Assistance Payments Program

Federal Administrative Expenses

Authorizing Legislation: Titles I, IV, X, XI, XIV, and XVI of the Social Security Act and the Act of July 5, 1960 (Public Law 86-571).

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority..............................	$32,473,000	$31,976,000	-$497,000
Full-time equivalents.........................	635	585	-50
Workyears.....................................	657	618	-39

Purpose and Method of Operation

This activity provides Federal resources for administering the maintenance assistance and research and evaluation activities of the assistance payments program. The Social Security Administration (SSA) provides policy direction and guidance to the States and other interested parties through its preparation of regulations, responses to inquiries, analysis of court suits and written policy positions. Overall financial management and budgetary formulation and execution are provided through reviews and analysis for the current fiscal year as well as the budget year.

Negotiations are conducted to ensure adherence to Federal law and regulations through the review of State plans, grant requests and onsite reviews of procedures. Support is provided to States through the gathering and dissemination of research and statistical data to promote effective management and program responsiveness at the Federal, State and local levels. State performance is monitored through quality assurance reviews of State Aid to Families with Dependent Children (AFDC) quality control systems. Federal resources are directed toward the improvement of program data systems at the Federal and State levels. SSA implements various employment related programs (including job search, community work experience program, grant diversion and work incentive (WIN) demonstration). Federal resources are used to provide States with policy direction and guidance to conduct these efforts toward reducing welfare dependency.

Rationale for the Budget Request

Strategies will continue to be implemented to improve State administration and management of the AFDC programs and to encourage, monitor and evaluate the various work options available to the States. The FY 1987 budget request reflects reduced Federal staffing for overhead and other management functions consistent with the Administration's emphasis on achieving savings through management initiatives.

Work Options

The Omnibus Budget Reconciliation Act of 1981 authorized three work options for the States: the community work experience program for providing experience and training to individuals otherwise unable to obtain employment; a work supplementation program which provides jobs as an alternative to aid; and the WIN demonstration program (a substitute for the regular WIN program which permits States greater flexibility in developing alternatives to the current AFDC work requirements). The Tax Equity and Fiscal Responsibility Act of 1982 extended the WIN demonstration program and provided a new option, job search, which permits States to require that applicants and recipients participate in a program of employment search as a condition of eligibility. The Social Security Administration will continue to approve, monitor and assist States in implementing work programs as well as evaluate their success for placement of eligible workers, effectiveness, and amount of cost savings.

The Deficit Reduction Act of 1984 includes the provision for modifying work supplementation in the form of grant diversion. The grant diversion program would allow the State the option to use all or part of its AFDC grant to supplement wages for jobs provided by public or private employers. This new authority establishes a more attractive alternative for States who wish to offer a wider range of work options.

As of December 1, 1985, 26 States are operating WIN demonstration programs; 23 States are operating community work experience programs, and 20 are operating or planning title IV-A employment search programs. Seventeen States now have grant diversion programs: some of these were approved as demonstration projects before work supplementation was modified to permit this option.

Maintenance Assistance

Federal Share of Expenditures, FY 1985

States and Other Areas	Aid to Families With Dependent Children	Emergency Assistance	State and Local Administration and Training	Total
Alabama	$50,961,432	-	$8,530,392	$59,491,824
Alaska	21,055,961	-	3,297,392	24,353,353
Arizona	39,982,237	-	5,101,367	45,083,604
Arkansas	30,381,418	$29,089	4,456,798	34,867,305
California	1,653,758,615	20,428,966	147,937,216	1,822,124,797
Colorado	50,097,306	-	10,934,099	61,031,405
Connecticut	111,587,774	-	9,595,908	121,183,682
Delaware	13,214,836	116,127	2,692,555	16,023,518
Dist. of Col.	38,309,187	1,190,402	10,705,703	50,205,292
Florida	144,808,759	-	25,341,289	170,150,048
Georgia	133,413,991	3,702,530	17,451,429	154,567,950
Guam	3,420,034	-	265,805	3,685,839
Hawaii	39,298,680	-	2,950,531	42,249,211
Idaho	12,906,384	-	4,128,493	17,034,877
Illinois	434,568,452	1,147,553	35,417,888	471,133,893
Indiana	91,832,449	-	12,466,828	104,299,277
Iowa	88,169,846	-	6,970,159	95,140,005
Kansas	43,110,198	196,994	4,305,399	47,612,591
Kentucky	97,662,633	-	7,894,038	105,556,671
Louisiana	99,318,556	-	14,397,519	113,716,075
Maine	55,191,917	503,297	2,615,463	58,310,677
Maryland	120,659,542	2,109,066	14,058,520	136,827,128
Massachusetts	208,988,195	7,419,996	29,493,474	245,901,665
Michigan	607,328,459	5,033,639	57,377,818	669,739,916
Minnesota	162,381,831	2,811,784	10,413,217	175,606,832
Mississippi	47,120,957	-	4,246,339	51,367,296
Missouri	119,937,246	-	11,579,038	131,516,284
Montana	20,680,025	192,823	1,856,285	22,729,133
Nebraska	33,327,734	322,771	3,160,227	36,810,732
Nevada	5,844,501	-	1,626,478	7,470,979
New Hampshire	12,128,421	-	2,062,798	14,191,219
New Jersey	247,693,071	2,047,190	30,211,074	279,951,335
New Mexico	35,475,194	-	5,608,397	41,083,591
New York	1,010,705,543	18,771,437	141,600,134	1,171,077,114
North Carolina	111,883,572	-	15,232,288	127,115,860
North Dakota	11,144,482	-	1,573,288	12,717,770
Ohio	421,303,657	5,888,859	33,509,530	460,702,046
Oklahoma	51,316,176	1,273,882	15,134,713	67,724,771
Oregon	60,810,400	1,707,669	10,672,138	73,190,207
Pennsylvania	420,630,072	45,814	66,124,937	486,800,823

States and Other Areas	Aid to Families With Dependent Children	Emergency Assistance	State and Local Administration and Training	Total
Puerto Rico	$47,214,904	$123,407	$8,500,025	$55,838,336
Rhode Island	42,705,045	-	2,981,542	45,686,587
South Carolina	65,777,385	-	6,266,894	72,044,279
South Dakota	12,184,502	-	2,101,626	14,286,128
Tennessee	63,130,518	-	8,620,399	71,750,917
Texas	123,810,684	-	27,006,028	150,816,712
Utah	35,984,469	-	4,244,055	40,228,524
Vermont	26,477,868	181,848	2,364,527	29,024,243
Virginia	95,867,580	31,335	14,168,510	110,067,425
Virgin Islands	2,085,452	-	211,812	2,297,264
Washington	165,925,474	1,518,571	23,914,770	191,358,815
West Virginia	60,166,130	760,603	4,055,257	64,981,990
Wisconsin	316,413,727	98,309	9,627,153	326,139,189
Wyoming	7,084,986	564,464	1,142,849	8,792,299
Subtotal	$8,027,238,467	$78,218,425	$908,202,411	$9,013,659,303
Administration and Training -- Jurisdictions..........				$6,616,000
Repatriation of U.S. nationals........................				$882,000
Adult categories......................................				$13,413,000
Child support enforcement collections 1/..............				-$351,000,000
Adjustments 2/..				-$149,605,303
Total, budget authority, Maintenance Assistance.....				$8,533,965,000

1/ Child support enforcement collections are shown as an offset to AFDC benefits.

2/ Amounts listed by State reflect estimates of expenditures reported by the States. These estimates have been adjusted to bring them in agreement with the national total for budget authority.

Maintenance Assistance

Federal Share of Expenditures, FY 1986

States and Other Areas	Aid to Families With Dependent Children	Emergency Assistance	State and Local Administration and Training	Total
Alabama	$50,294,000	-	$9,016,000	$59,310,000
Alaska	23,775,000	-	3,809,000	27,584,000
Arizona	50,994,000	-	5,982,000	56,976,000
Arkansas	36,401,000	$30,000	5,369,000	41,800,000
California	1,867,718,000	23,032,000	215,386,000	2,106,136,000
Colorado	52,641,000	-	12,654,000	65,295,000
Connecticut	114,238,000	-	10,633,000	124,871,000
Delaware	12,998,000	115,000	2,933,000	16,046,000
Dist. of Col.	36,866,000	2,324,000	13,297,000	52,487,000
Florida	152,013,000	-	26,726,000	178,739,000
Georgia	149,903,000	4,165,000	19,229,000	173,297,000
Guam	4,038,000	-	467,000	4,505,000
Hawaii	38,262,000	-	6,006,000	44,268,000
Idaho	13,400,000	-	3,768,000	17,168,000
Illinois	441,134,000	1,150,000	37,257,000	479,541,000
Indiana	94,349,000	-	15,076,000	109,425,000
Iowa	99,301,000	-	7,246,000	106,547,000
Kansas	44,312,000	205,000	4,693,000	49,210,000
Kentucky	99,031,000	-	12,541,000	111,572,000
Louisiana	105,478,000	-	14,993,000	120,471,000
Maine	56,027,000	518,000	2,660,000	59,205,000
Maryland	128,910,000	2,550,000	15,050,000	146,510,000
Massachusetts	218,348,000	17,510,000	42,150,000	278,008,000
Michigan	706,506,000	5,400,000	60,703,000	772,609,000
Minnesota	175,555,000	3,350,000	10,747,000	189,652,000
Mississippi	56,578,000	-	5,367,000	61,945,000
Missouri	123,150,000	-	13,547,000	136,697,000
Montana	20,096,000	180,000	1,930,000	22,206,000
Nebraska	34,629,000	409,000	3,207,000	38,245,000
Nevada	7,221,000	-	1,757,000	8,978,000
New Hampshire	11,789,000	-	2,338,000	14,127,000
New Jersey	273,514,000	2,046,000	56,873,000	332,433,000
New Mexico	35,947,000	-	6,028,000	41,975,000
New York	1,067,211,000	18,540,000	150,368,000	1,236,119,000
North Carolina	115,116,000	-	17,595,000	132,711,000
North Dakota	10,899,000	-	1,768,000	12,667,000
Ohio	474,806,000	3,229,000	45,236,000	523,271,000
Oklahoma	52,893,000	1,317,000	16,054,000	70,264,000
Oregon	80,556,000	1,893,000	13,149,000	95,598,000
Pennsylvania	438,668,000	45,000	64,102,000	502,815,000

States and Other Areas	Aid to Families With Dependent Children	Emergency Assistance	State and Local Administration and Training	Total
Puerto Rico	$46,704,000	$109,000	$6,088,000	$52,901,000
Rhode Island	43,629,000	-	3,339,000	46,968,000
South Carolina	93,722,000	0	10,205,000	103,927,000
South Dakota	12,395,000	-	1,887,000	14,282,000
Tennessee	69,057,000	-	9,665,000	78,722,000
Texas	151,766,000	10,000	34,804,000	186,580,000
Utah	38,139,000	-	6,490,000	44,629,000
Vermont	27,709,000	200,000	2,731,000	30,640,000
Virginia	94,920,000	37,000	30,716,000	125,673,000
Virgin Islands	2,101,000	2,000	232,000	2,335,000
Washington	183,349,000	1,420,000	26,501,000	211,270,000
West Virginia	78,267,000	770,000	4,567,000	83,604,000
Wisconsin	334,864,000	101,000	10,488,000	345,453,000
Wyoming	8,444,000	750,000	1,100,000	10,294,000
Subtotal	$8,760,631,000	$91,407,000	$1,106,523,000	$9,958,561,000
Administration and training--jurisdictions............				$6,616,000
Repatriation of U.S. nationals........................				$1,000,000
Adult categories....................................				$13,368,000
Child support enforcement collections 1/..............				-$386,000,000
Adjustments 2/......................................				-$634,248,000
Total, budget authority, Maintenance Assistance.....				$8,959,297,000

1/ Child support enforcement collections are shown as an offset to AFDC benefits.

2/ Amounts listed by State reflect estimates made by the States. These estimates have been adjusted in total for the maintenance assistance program to bring the total in line with national projections which are based on national trends of the caseload and national socioeconomic variables.

Maintenance Assistance

Federal Share of Expenditures, FY 1987

States and Other Areas	Aid to Families With Dependent Children	Emergency Assistance	State and Local Administration and Training	Total
Alabama	$50,247,000	-	$9,422,000	$59,669,000
Alaska	26,475,000	-	3,891,000	30,366,000
Arizona	55,811,000	-	4,845,000	60,656,000
Arkansas	37,524,000	$30,000	5,276,000	42,830,000
California	1,877,413,000	23,032,000	210,847,000	2,111,292,000
Colorado	56,146,000	-	14,206,000	70,352,000
Connecticut	118,923,000	-	11,869,000	130,792,000
Delaware	12,987,000	114,000	3,079,000	16,180,000
Dist. of Col.	39,283,000	2,629,000	12,693,000	54,605,000
Florida	156,530,000	-	31,153,000	187,683,000
Georgia	196,395,000	5,600,000	19,753,000	221,748,000
Guam	4,038,000	-	467,000	4,505,000
Hawaii	38,168,000	-	5,837,000	44,005,000
Idaho	14,059,000	-	3,030,000	17,089,000
Illinois	441,133,000	1,425,000	36,677,000	479,235,000
Indiana	92,939,000	-	14,330,000	107,269,000
Iowa	103,451,000	-	7,534,000	110,985,000
Kansas	45,937,000	214,000	5,350,000	51,501,000
Kentucky	102,405,000	-	10,689,000	113,094,000
Louisiana	112,516,000	-	15,414,000	127,930,000
Maine	57,147,000	534,000	2,739,000	60,420,000
Maryland	132,134,000	2,722,000	16,044,000	150,900,000
Massachusetts	217,875,000	19,550,000	44,500,000	281,925,000
Michigan	691,190,000	5,400,000	64,303,000	760,893,000
Minnesota	185,417,000	3,700,000	11,177,000	200,294,000
Mississippi	58,559,000	-	5,658,000	64,217,000
Missouri	129,307,000	-	14,487,000	143,794,000
Montana	21,432,000	182,000	2,005,000	23,619,000
Nebraska	35,138,000	477,000	3,362,000	38,977,000
Nevada	7,221,000	-	1,757,000	8,978,000
New Hampshire	11,962,000	-	2,523,000	14,485,000
New Jersey	281,078,000	2,100,000	48,150,000	331,328,000
New Mexico	36,881,000	-	5,445,000	42,326,000
New York	1,119,583,000	18,230,000	158,322,000	1,296,135,000
North Carolina	114,848,000	-	17,634,000	132,482,000
North Dakota	11,861,000	-	1,810,000	13,671,000
Ohio	503,084,000	4,066,000	47,993,000	555,143,000
Oklahoma	55,302,000	1,383,000	16,755,000	73,440,000
Oregon	87,066,000	1,950,000	17,189,000	106,205,000
Pennsylvania	442,884,000	45,000	67,216,000	510,145,000

States and Other Areas	Aid to Families With Dependent Children	Emergency Assistance	State and Local Administration and Training	Total
Puerto Rico	$46,704,000	$109,000	$6,088,000	$52,901,000
Rhode Island	45,810,000	-	3,539,000	49,349,000
South Carolina	93,722,000	-	17,424,000	111,146,000
South Dakota	12,893,000	-	1,939,000	14,832,000
Tennessee	72,578,000	-	10,170,000	82,748,000
Texas	152,846,000	-	27,518,000	180,364,000
Utah	39,600,000	-	5,437,000	45,037,000
Vermont	29,269,000	200,000	2,873,000	32,342,000
Virginia	95,485,000	37,000	27,361,000	122,883,000
Virgin Islands	2,101,000	2,000	232,000	2,335,000
Washington	194,028,000	1,428,000	28,536,000	223,992,000
West Virginia	78,604,000	783,000	4,608,000	83,995,000
Wisconsin	351,608,000	106,000	11,120,000	362,834,000
Wyoming	8,613,000	765,000	1,121,000	10,499,000
Subtotal	$9,006,210,000	$96,813,000	$1,123,397,000	$10,226,420,000
Administration and training--jurisdictions...........				$6,616,000
Repatriation of U.S. nationals.......................				$1,000,000
Adult categories.....................................				$13,368,000
Child support enforcement collections [1/].............				-$417,000,000
Adjustments [2/].......................................				-$1,662,073,000
Total, budget authority, Maintenance Assistance....				$8,168,331,000

[1/] Child support enforcement collections are shown as an offset to AFDC benefits.

[2/] Amounts listed by State reflect estimates made by the States. These estimates have been adjusted in total for the maintenance assistance program to bring the total in line with national projections which are based on national trends of the caseload and national socioeconomic variables. State estimates do not include the impact of collection of fiscal sanctions from States which fail to meet their statutorily mandated error rate targets (-$777,200,000) or the impact of the Administration's legislative program (-$236,742,000).

Assistance Payments Program

Estimates for Consulting Services

Non-Evaluation:

			Obligations			
Account Title	Type [1]	Source of Funds [2]	1985 Actual	1986 Appro-priation	1986 Current Estimate	1987 Estimate
Assistance Payments.........	C	A	$380,900	$694,000	$116,000	$575,000

TOTALS:

Contractual services...............	$380,900	$694,000	$116,000	$575,000
Personnel appointments.............	---	---	---	---
Advisory committee expenses........	---	---	---	---
Total, consulting services.......	$380,900	$694,000	$116,000	$575,000

[1] Indicate C for contractual services, P for personnel appointments, or A for advisory committee obligations.

[2] Indicate A for appropriated funds or N for non-appropriated funds.

Assistance Payments

1985 Actual	1986 Appro-priation	1986 Current Estimate	1987 Estimate
$380,900	$694,000	$116,000	$575,000

The Assistance Payments program uses consultant services to perform activities that are needed to improve the program but for which it does not have the required expertise or resources. A major expenditure in this account for FY 1985 was for a contract to develop a Federal guide on cost effectiveness of AFDC corrective actions. In FY 1986, consultant services are required to provide consultation and legal testimony in support of the AFDC quality control statistical methodology for determining error rates. In FY 1987, we plan to assess the impact of the Family Assistance Management Information Systems on State operations; increase the available information on recipient characteristics which is critical to monitoring existing policy and evaluating the effects of proposed policy changes; and update the Federal guide on cost effectiveness of AFDC corrective actions.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

SOCIAL SECURITY ADMINISTRATION

Low Income Home Energy Assistance

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SOCIAL SECURITY ADMINISTRATION

Low Income Home Energy Assistance Program

For carrying out title XXVI of the Omnibus Budget Reconciliation Act of 1981 [1], $2,100,000,000. *(Department of Health and Human Services Appropriation Act, 1986; additional authorizing legislation to be proposed for $2,100,000,000.)* [2]

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[1] As amended by the Human Services Reauthorization Act of 1984 which reauthorized the Low Income Home Energy Assistance Program for FY 1985 and FY 1986.

[2] Authorization of the Low Income Home Energy Assistance Act of 1981 expires at the end of FY 1986. Legislation will be proposed to reauthorize the program at the current level of $2,100,000,000.

Low Income Home Energy Assistance Program

Amounts Available for Obligation

	1985 Actual	1986 Current Estimate	1987 Estimate
Appropriation	$2,100,000,000	$2,100,000,000	$2,100,000,000
Sequester order	--	-90,300,000	--
Subtotal, budget authority	$2,100,000,000	$2,009,700,000	$2,100,000,000
Unobligated balance lapsing	-304,000	---	---
Total obligations	$2,099,696,000	$2,009,700,000	$2,100,000,000

Low Income Home Energy Assistance Program

Summary of Changes

1986 Current estimate, budget authority.............	$2,100,000,000
1986 Sequester order..................................	-90,300,000
Total Estimate, budget authority...............	$2,009,700,000
1987 Estimate, budget authority....................	$2,100,000,000
Net change....................................	+$90,300,000

	1986 Base		Change from Base	
	WY's (FTE)	Budget Authority	WY's (FTE)	Budget Authority
Increases:				
A. Built-in:				
Federal administrative expenses for payroll costs (including step increases and career ladder promotions), rent and supplies............	32 (32)	$2,139,000		+$33,000
B. Program:				
1. Program Grants--Increase in funds available for program grants to maintain the 1986 program level before sequestration in FY 1987..........	--	2,007,561,000	--	+90,081,000
2. Federal Administration--Increased costs for contract activities needed to prepare reports to Congress, update the allocation formula and other program activities..	--	--		+186,000
Total, increases..				+$90,300,000
Net change........				+$90,300,000

Low Income Home Energy Assistance Program

Budget Authority by Activity
(Budget authority in thousands)

	1985 Actual	1986 Appropriation	1986 Current Estimate 1/	1987 Estimate
Program grants......	$2,097,704	$2,097,765	$2,007,561	$2,097,642
Federal administration.....	2,296	2,235	2,139	2,358
Total, budget authority.......	$2,100,000	$2,100,000	$2,009,700	$2,100,000
Full-time equivalents........	34	32	32	32

1/ Reflects a reduction of $90,300,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

Low Income Home Energy Assistance Program

Budget Authority by Object

	1986 Current Estimate	1987 [1] Estimate	Increase or Decrease
Full-time equivalent of permanent positions.......	32	32	---
Full-time equivalent of all other positions.......	0	0	---
Total compensable workyears.................	34	34	---
Average ES salary..........	$66,878	$66,978	+$100
Average GS grade...........	10.98	10.98	---
Average GS salary..........	$34,653	$35,157	+$504
Personnel compensation:			
Permanent positions......	$1,083,000	$1,105,000	+$22,000
Positions other than permanent...............	19,000	19,000	---
Other personnel compensation............	59,000	59,000	---
Subtotal, personnel compensation.........	$1,161,000	$1,183,000	+$22,000
Personnel benefits.........	138,000	141,000	+3,000
Travel and transportation of persons...............	108,000	108,000	---
Transportation of things...	7,000	7,000	---
Rent.......................	59,000	63,000	+4,000
Communications, utilities and other rents...........	64,000	66,000	+2,000
Printing and reproduction..	15,000	15,000	---
Other services.............	557,000	743,000	+186,000
Supplies and materials.....	15,000	17,000	+2,000
Equipment..................	15,000	15,000	---
Grants, subsidies and contributions............	2,007,561,000	2,097,642,000	+90,081,000
Total, budget authority by object.............	$2,009,700,000	$2,100,000,000	+$90,300,000

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[1] The FY 1987 estimates by object differ from the presentation in the appendix to the 1987 President's budget to reflect a more current assessment of budget authority by object.

Low Income Home Energy Assistance Program

Significant Items in House and Senate Appropriations Committee Reports

Item	Action Taken or to be Taken
1986 House and Senate Reports	
Obligation of Funds	
The Committees indicated that they expected State grant funds would be obligated early in the fiscal year, so that programs would be fully operational prior to the onset of severe winter weather.	Funds were distributed according to State estimates of their monthly need for obligational authority as reported to HHS (SSA-35 report "Monthly Estimates of Obligation") subject to the restrictions that funds be available throughout the entire winter heating season.
Senate Report	
Energy Assistance Report	
The Senate Committee also said it was pleased with past reports prepared by the Department regarding energy assistance data, and expected to continue to receive them on a periodic basis.	The Department has conducted another detailed telephone survey (like the one conducted in FY 1985) for the FY 1986 preliminary report. We plan to provide the preliminary report early in March 1986. In addition, we plan to submit an update by August 15, 1986.

Low Income Home Energy Assistance Program

Authorizing Legislation

	1986 Amount Authorized	1986 Current Estimate	1987 Amount Authorized	1987 Budget Request
Low Income Home Energy Assistance Act of 1981 (title XXVI of the Omnibus Budget Reconciliation Act of 1981, P.L. 97-35 as amended by the Human Services Reauthorization Act, P.L. 98-558, enacted October 30, 1984)..............	$2,275,000,000	$2,009,700,000 1/	--- 2/	$2,100,000,000

1/ Reflects reduction of $90,300,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

2/ Authorization of the Low Income Home Energy Assistance Program expires at the end of FY 1986. Legislation will be proposed to reauthorize the program at the current request level of $2,100,000,000.

Low Income Home Energy Assistance Program

Table of Estimates and Appropriations

Fiscal Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1980	$1,600,000,000	$1,600,000,000	$1,600,000,000	$1,600,000,000 1/
1981	2,200,000,000	1,850,000,000	---	1,849,500,000 2/
1982	1,400,000,000	1,800,000,000	1,650,000,000	1,875,000,000
1983	1,300,000,000	1,850,000,000	1,850,000,000 3/	1,975,000,000 4/
1984	1,300,000,000	1,875,000,000	1,875,000,000	2,075,000,000 5/
1985	1,875,000,000	---	2,140,000,000	2,100,000,000
1986	2,100,000,000	2,100,000,000	2,100,000,000	2,100,000,000
1986 Sequester order	-90,300,000			
1987	2,100,000,000			

1/ Appropriated to the Community Services Administration.

2/ Congress originally appropriated $1,850,000,000. However, P.L. 97-12, the Supplemental Appropriations and Rescission Act of 1981, included a rescission of $500,000 from Federal administrative expenses.

3/. Amount approved by Senate Committee on Appropriations.

4/ The annual amount authorized by the second Continuing Resolution (P.L. 97-377).

5/ Includes $200 million supplemental appropriation (P.L. 98-248) enacted March 30, 1984.

Low Income Home Energy Assistance Program

Justification

Account Summary

	1986 [1/] Current Estimate	1987 Estimate	Increase or Decrease
Low income home energy assistance program grants....	$2,007,561,000	$2,097,642,000	+$90,081,000
Federal administration....	2,139,000	2,358,000	+219,000
Total, budget authority.........	$2,009,700,000	$2,100,000,000	+$90,300,000
Full-time equivalents.......	32	32	---
Workyears..........	34	34	---

[1/] Reflects a reduction of $90,300,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

General Statement

The low income home energy assistance program (LIHEAP) provides assistance to low income households in meeting the costs of home energy. Under the program, funds are provided through block grants to States, Indian tribes, Puerto Rico and the territories for their use in programs tailored to meet the unique requirements of their jurisdictions. The program was amended and reauthorized through FY 1986 by the Human Services Reauthorization Act of 1984, P.L. 98-558, enacted October 30, 1984. Authorization for the program expires at the end of FY 1986. Legislation will be proposed to authorize the program at the level requested for 1987.

The budget request for FY 1987 is for $2,100,000,000, the same level appropriated in FY 1986 (prior to the Gramm-Rudman sequester order) including $2,097,642,000 to be distributed in program grants to States and Indian tribes and other jurisdictions, and $2,358,000 for Federal administrative costs.

Program Features (as amended by the Human Services Reauthorization Act of 1984, P.L. 98-558)

P.L. 98-558, includes a formula, based on home energy expenditures by low income households, for allocating low income home energy assistance program funds among the States. (A transitional "hold harmless" provision provides that, in FY 1985, no State receive less funds than it received in FY 1984. For FY 1986 and beyond, another protection requires that States receive no less than 95 percent of their amounts in FY 1985.)

The current program allows States to be flexible in several areas:

--A State may spend up to 15 percent of its funds for low cost weatherization or energy-related home repairs.

--A State is allowed to reserve up to 15 percent of the funds payable to it and not transferred for use in the next fiscal year.

--A State may transfer up to 10 percent of the funds payable to it to several other block grants.

--States are required to reserve a reasonable amount of their allocations until March 15 to provide energy crisis intervention services.

--A State may use up to 10 percent of the funds payable to it and not transferred for administrative expenses.

In FY 1985, States made use of the flexibility in the following ways:

	Number of States 1/	($ in millions) 1/
Weatherization..................	50	$214.2
Carryover to FY 1986............	39	$70.6
Transferred to other blocks grants..................	29	$98.0

1/ Based on State estimates from July 1985.

Program Accomplishments

Beginning in 1977, Congress appropriated $200,000,000 each year to the Community Services Administration for Federal programs to help low income families pay their fuel bills and avoid utility cut-offs.

Due to rapid increases in the cost of home energy, in FY 1980 Congress enacted the first in a series of energy assistance programs which significantly increased the Federal financial role in helping low income households. The following table shows the funding level, number of households served, and the average payment per household over th^ 5-year period 1982-1986.

	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986 Current Estimate
Appropriation ($ in thousands)..	$1,875,000	$1,975,000	$2,075,000	$2,100,000	$2,100,000
Number of households assisted with heating (in thousands) [1]	6,250	6,800	6,800	6,900[2]	7,300[2]
Average payment per household for heating costs [1]..	$202	$225	$236	$241[2]	$226[2]

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[1] Includes an estimate of the overlap of the States' main heating assistance programs and their crisis assistance programs which also provide some assistance with emergency heating costs.

[2] Based on State estimates from January 1986.

Low Income Home Energy Assistance Program

Program Grants

Authorizing Legislation:	Title XXVI of the Omnibus Budget Reconciliation Act of 1981 as amended by the Human Services Reauthorization Act of 1984.
1987 Authorization:	Unauthorized.

	1986 Current [1/] Estimate	1987 Estimate	Increase or Decrease
Budget authority............	$2,007,561,000	$2,097,642,000	+$90,081,000

[1/] Reflects a reduction of $90,300,000 ($90,204,000 in program grants) pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

Purpose and Method of Operation

This activity provides grants to States, Indian tribes and other jurisdictions to aid low income households through payments to eligible households and energy suppliers. This program assists eligible households in meeting the cost of home energy, defined by statute to include sources of residential heating or cooling.

The statute allows States to make payments to eligible households meeting the following criteria:

--One or more individuals receive either aid to families with dependent children payments, supplemental security income payments, food stamps, or certain veterans payments.

--The household's total income does not exceed the higher of 150 percent of the poverty level of the State or 60 percent of the State median income level. Beginning in FY 1986, States may not set their eligibility standard below 110 percent of the poverty level.

The States are allowed flexibility in determining payment levels and types of payments including unrestricted cash, payments to vendors on behalf of eligible households or energy vouchers. Up to 10 percent of the funds payable to a State and not transferred may be used to pay State planning and administrative costs. A grantee may transfer up to 10 percent of the funds payable to it to any of six other block grants administered by HHS. A grantee may hold up to 15 percent of the funds payable to it and not transferred for obligation in the subsequent fiscal year.

Funding Level

The requested FY 1987 appropriation of $2,097,642,000 represents approximately the same level as provided in the FY 1986 appropriation (prior to the sequester order under P.L. 99-177).

This funding level is sufficient to provide supplemental energy assistance to low-income households. Past and current funding levels have proven more than adequate. Since the inception of the block grant in FY 1982, States have transferred nearly $500 million to other block grants. No State, so far, has transferred funds into LIHEAP, although this means of balancing funding levels and State priorities remains available. States also have the flexibility to tailor eligibility criteria and benefit levels to target their neediest households.

Substantial assistance with energy costs is also available from other basic needs programs, such as Aid to Families with Dependent Children, supplemental security income, and housing subsidies, as well as a variety of energy-related programs. In addition, many utilities sponsor "fuel fund" programs to provide cash assistance to needy households or provide free or low-cost energy conservation assistance.

Low Income Home Energy Assistance Program

Federal Administration

Authorizing Legislation:	Title XXVI of the Omnibus Budget Reconciliation Act of 1981 as amended by the Human Services Reauthorization Act of 1984.
1987 Authorization:	Unauthorized.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority..........	$2,139,000	$2,358,000	+$219,000
Full-time equivalents..............	32	32	---
Workyears.................	34	34	---

Purpose and Method of Operation

This activity provides funds for the Social Security Administration to administer the low income home energy assistance block grant. Social Security Administration activities include reviewing State plans, providing grants to the States and other jurisdictions, providing reports to the Appropriations Committees, preparing the annual report to Congress, and conducting reviews including evaluating State compliance with statutory requirements, and audit oversight.

Rationale for the Budget Request

The Social Security Administration continues to administer the low income home energy assistance program as a block grant program. The FY 1987 budget request reflects a net increase of $219,000. This increase primarily reflects the additional costs of contract activities necessary to prepare reports to Congress, to update the allocation formula and other program activities. There are also personnel compensation increases reflecting mandatory increases in payroll costs, including step increases and career ladder promotions.

SSA will continue in FY 1987 to prepare the annual report to Congress, review State and Indian tribe applications and amendments, complete compliance and monitoring reviews, and carry out financial management functions. The U.S. Department of Health and Human Services will also issue, in accordance with P.L. 98-558, regulations to prevent waste, fraud and abuse in the low income home energy assistance program.

Low Income Home Energy Assistance Grants

State or Jurisdiction	FY 1985	FY 1986	FY 1987
Alabama	$18,312,310	$17,710,215	$20,051,405
Alaska	11,689,158	10,815,202	10,815,202
Arizona	8,856,051	8,564,871	9,697,099
Arkansas	13,973,158	13,513,731	15,300,170
California	98,240,209	95,010,144	107,569,951
Colorado	33,298,847	31,692,305	31,692,305
Connecticut	43,439,520	41,343,730	41,343,730
Delaware	5,931,025	5,731,249	5,988,415
District of Columbia	6,939,598	6,436,540	6,725,353
Florida	28,975,542	28,022,848	31,727,311
Georgia	22,909,609	22,156,358	25,085,304
Hawaii	2,242,836	2,134,629	2,134,629
Idaho	12,988,768	12,362,111	12,362,111
Illinois	123,679,361	116,199,597	121,413,574
Indiana	55,371,045	52,200,340	54,542,614
Iowa	38,581,057	36,719,670	36,719,670
Kansas	18,226,012	17,283,432	18,058,954
Kentucky	29,141,451	28,183,302	30,884,271
Louisiana	18,721,526	18,105,976	20,499,485
Maine	28,141,884	26,784,147	26,784,147
Maryland	34,214,462	33,089,516	37,463,764
Massachusetts	86,893,426	82,701,153	82,701,153
Michigan	114,150,782	110,053,236	114,991,420
Minnesota	82,239,180	78,271,456	78,271,456
Mississippi	15,699,961	15,183,758	17,190,966
Missouri	48,025,791	47,778,052	50,084,219
Montana	15,235,000	14,499,970	14,499,970
Nebraska	19,079,813	18,159,286	18,159,286
Nevada	4,159,423	4,022,665	4,554,438
New Hampshire	16,447,153	15,653,641	15,653,641
New Jersey	82,979,209	80,250,915	86,621,163
New Mexico	10,778,223	10,722,624	11,919,535
New York	263,390,085	250,682,526	250,682,526
North Carolina	40,378,234	39,050,627	44,212,901
North Dakota	16,549,819	15,751,355	15,751,355

State or Jurisdiction	FY 1985	FY 1986 1/	FY 1987 2/
Ohio	$109,412,876	$105,815,466	$113,918,675
Oklahoma	16,832,774	16,279,324	18,431,359
Oregon	25,808,013	24,562,876	24,562,876
Pennsylvania	141,479,321	134,653,488	134,653,488
Rhode Island	14,303,153	13,613,082	13,613,082
South Carolina	14,543,706	14,065,519	15,924,902
South Dakota	13,441,352	12,792,859	12,792,859
Tennessee	29,519,666	28,549,081	32,323,109
Texas	48,205,634	46,620,669	52,783,659
Utah	15,474,052	14,727,489	14,727,489
Vermont	12,327,727	11,732,961	11,732,961
Virginia	41,677,041	39,901,975	41,692,411
Washington	42,450,627	40,402,548	40,402,548
West Virginia	19,285,111	17,931,576	18,736,181
Wisconsin	74,027,070	70,455,549	70,455,549
Wyoming	6,195,470	5,896,563	5,896,563
American Samoa	45,264	43,319	45,264
Guam	99,241	32,988	99,238
Northern Mariana Islands	34,469	94,976	34,468
Puerto Rico	2,463,423	2,357,563	2,463,350
Trust Territory (ex. NMI)	104,639	100,142	104,636
Virgin Islands	93,843	89,810	93,840
Federal Administration	2,037,000	2,139,000	2,358,000
Total	$2,099,741,000	$2,009,700,000	$2,100,000,000

1/ Reflects a reduction of $90,300,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

2/ Estimates as of February 1986. The statute requires the Secretary to determine State allocations using the most recent data available; therefore, these figures may change.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

SOCIAL SECURITY ADMINISTRATION

Limitation on Administrative Expenses

FY 1987 Budget

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SOCIAL SECURITY ADMINISTRATION

Limitation on Administrative Expenses

For necessary expenses, not more than [$3,992,486,000] *$4,011,373,000* may be expended, as authorized by section 201(g)(1) of the Social Security Act, from any one or all of the trust funds referred to therein: *Provided*, That travel expense payments under section 1631(h) of such Act *for travel to hearings* 1/ may be made only when travel of more than seventy-five miles is required: *Provided further*, That [$145,000,000] *$160,000,000* of the foregoing amount shall be apportioned for use only to the extent necessary to process workloads not anticipated in the budget estimates, for automation projects and their impact on the work force, and to meet mandatory increases in costs of agencies or organizations with which agreements have been made to participate [illegible] the administration of titles XVI and XVIII and section 221 of the Social Security Act, and after maximum absorption of such costs within the remainder of the existing limitation has been achieved: *Provided further*, That [$182,939,000] *$225,398,000* 2/ for automatic data processing and telecommunications activities shall remain available until expended: *Provided further*, That none of the funds appropriated by this Act may be used for the manufacture, printing, or procuring of social security cards, as provided in section 205(c)(2)(D) of the Social Security Act, where paper and other materials used in the manufacture of such cards are produced, manufactured, or assembled outside of the United States. *(Department of Health and Human Services Appropriation Act, 1986.)*

Explanation of Language Changes

/ This technical language change conforms the language with SSA's longstanding practices regarding the payment of travel expenses in the supplemental security income (SSI) program. It clarifies SSA policy which limits reimbursements to SSI claimants, their representatives and witnesses for travel to hearings on occasions when travel of more than 75 miles is required.

Each year beginning in 1966 and continuing thereafter to include the SSI program, Congress provided authority in appropriation acts for paying travel expenses to claimants, witnesses and their representatives for travel related to medical examinations and hearings. Under this authority, SSA paid all of the claimant's travel expenses related to medical examinations requested by SSA, but limited payment for travel related to hearings to travel exceeding 75 miles. The 1980 amendments to the Social Security Act provided permanent authority for the payment of travel expenses. However, the 1980 amendments unintentionally broadened the authority in the SSI program to require paying for all travel, regardless of distance. Since the Congress intended that the 1980 amendments enact the prior authorization and administrative practices into permanent law, without substantive change; the Congress has approved, each year, since 1981, the current proviso limiting payment for travel in excess of 75 miles.

The proposed change recognises that the current proviso approved since 1981, is broader than intended. That proviso was only intended to limit payments of travel expenses to hearings but not affect payment of travel expenses for medical examinations. The proposed language restricts the 75 mile limitation to hearings-related travel, and permits SSA to continue its practice of paying for other SSI claimant travel expenses without the 75 mile limitation. The proposal would not have any additional cost impact over prior years since the proposed change reflects our present practices.

2/ While there is no change in the language, SSA wishes to bring to the attention of the Committees a proposed change in the term, "automatic data processing and telecommunication activities." The proposed change broadens the definition of telephone acquisition activities included in the no-year earmark. The request includes an increase in the amount included in the no-year earmark because SSA proposes to broaden the definition of telephone costs. The change does not increase the overall agency request. At present, only telephone equipment purchases are included in the no-year earmark. We propose to include lease, maintenance and voice communication costs as well so as to provide funding flexibility for major telephone systems acquisitions.

Limitation on Administrative Expenses

Language Analysis

Language Provision	Explanation
"*Provided,* That travel expense payments under section 1631(h) of such Act *for travel to hearings* may be made only when travel of more than seventy-five miles is required:"	Authorizing legislation enacted in the Social Security Disability Amendments of 1980 specifies that the Secretary "shall pay" for travel incident to medical examinations and for claimants, their representatives, and witnesses to attend reconsideration interviews and hearings for title XVI claims. The provision restores the mileage limitation which was established in regulations before enactment of the 1980 Disability Amendments and makes travel reimbursement policy the same for SSI and Social Security claimants.
"*Provided further,*...for automatic data processing and telecommunications activities shall remain available until expended."	This provision provides extended availability of funds for automatic data processing (ADP) and telecommunications leases, purchases or contracts for the purpose of modernizing SSA's system. It protects against the unpredictability of timing in major systems purchases that are particularly prone to procurement challenges which can delay final procurement into the next fiscal year.
"*Provided further,* That none of the funds appropriated by this Act may be used for the manufacture, printing, or procuring of social security cards, as provided in section 205(c)(2)(D) of the Social Security Act, where paper and other materials used in the manufacture of such cards are produced, manufactured, or assembled outside of the United States."	This provision bars funding of certain functions related to printing social security cards in order to encourage use of domestic printing and manufacturing resources for this activity.

Limitation on Administrative Expenses
Amounts Available for Obligation 1/

	1985 Actual	1986 Estimate	1987 Estimate
Appropriation................	$3,787,515,000	$3,992,486,000	$4,011,373,000
Sequester order..............	---	-144,357,000	---
Comparative transfer to: HHS, Health Care Financing Administration.............	-929,000	---	---
Subtotal, adjusted budget authority................	$3,786,586,000	$3,848,129,000	$4,011,373,000
Recovery of prior year obligations................	+5,695,000	---	---
Unobligated balance, start of year...............	+165,590,000	+227,134,000	+121,288,000
Unobligated balance, end of year................	-227,134,000	-121,288,000	-6,647,000
Unobligated balance lapsing....................	-167,226,000	-139,031,000 2/	-160,000,000
Total obligations........	$3,563,511,000	$3,814,944,000	$3,966,014,000

1/ Excludes the following amounts for reimbursable work (such as the taking of food stamp applications, administrative support to the Office of Child Support Enforcement, and some Medicare-related activities):

	1985 Actual	1986 Current Estimate	1987 Estimate
Obligations.............	$7,805,000	$14,482,000	$15,261,000
Full-time equivalents...........	315	307	315

2/ Reflects $266,000 withheld from obligation pursuant to Section 515 of the Treasury-Postal Services Appropriation Act of 1986, enacted by reference in the Continuing Resolution for FY 1986, P.L. 99-190.

Limitation on Administrative Expenses

Summary of Changes

1986 Appropriation	$3,992,486,000
Sequester Order	-144,357,000
1986 Current Estimate, Budget Authority	$3,848,129,000
1987 Estimate, Budget Authority	$4,011,373,000
Net Change	+$163,244,000

	1986 Base		Change from Base	
	Workyears (FTE's)	Budget Authority	Workyears (FTE's)	Budget Authority
Increases:				
A. Built-in:				
1. Mandatory changes in SSA payroll costs, including periodic step increases and career ladder promotions	--	$2,194,641,000	--	+$43,817,000
2. Increase in Disability State Agency workyear costs associated with changes in workloads. There are more continuing disability reviews, new initial claims and appellate work in FY 1987; partially offset by decreases for one-time mental impairment cases completed during FY 1986	--	511,194,000	--	+5,933,000
3. Increase in Disability State agency costs for purchase of medical evidence of record and consultative medical examinations associated with workload increases	--	230,012,000	--	+12,861,000

	1986 Base		Change from Base	
	Workyears (FTE's)	Budget Authority	Workyears (FTE's)	Budget Authority
4. Higher net payments for unemployment compensation, worker's compensation, awards and relocation allowances..........	--	$51,658,000	--	+$46,000
Subtotal, built-in increases..........			-- (--)	+$62,657,000
B. Program:				
1. Restoration of Gramm-Rudman-Hollings cuts taken in FY 1986 but not in FY 1987.......	3,242 (1,180)	-$144,357,000	+1,575 (--)	+$91,116,000
2. Ergonomic furniture costs associated with implementing the Claims Modernization Project..............	--	18,048,000	--	+46,452,000
3. Increased costs for training travel associated with implementation of the Claims Modernization Project (+$2,087,000), partially offset with a lower number of site vists to perform office reviews and audits...............	--	27,896,000	--	+826,000
4. Increased printing cost for the reprinting of a complete revision of the program operations manual, partially offset by a decrease in one-time printing initiatives such as the biennial printing of the Social Security Handbook....	--	24,203,000	--	+2,806,000

	1986 Base		Change from Base	
	Workyears (FTE's)	Budget Authority	Workyears (FTE's)	Budget Authority
5. Funds for several one-time initiatives; namely:				
a. Installation of special equipment to improve space utilization and work flow in the Northeastern program service center............	--	--	--	+$2,481,000
b. The Office of Hearings and Appeals headquarters and Mid America program service center buildings consolidations....	--	--	--	+1,823,000
6. Facilities modifications related to safety and security improvements.........	--	--	--	+5,369,000
7. Higher costs for services provided by regional medical/vocational consultants associated with higher workloads and unit cost changes....	--	$23,499,000	--	+1,399,000
8. New regional training centers and improved communication of training materials to SSA field offices....	--	1,100,000	--	+1,844,000
9. Full-year effect of charges by financial institutions to provide services associated with SSA participation in the Department of Treasury lockbox system scheduled to begin in FY 1986...........	--	500,000	--	+500,000

	1986 Base		Change from Base	
	Workyears (FTE's)	Budget Authority	Workyears (FTE's)	Budget Authority
10. Word processing equipment for the Office of the General Counsel......	--	--	--	+$470,000
11. Higher costs charged by other Federal agencies which provide training to SSA employees (Department of Agriculture, Office of Personnel Management)..........	--	$7,357,000	--	+250,000
12. Increase in Equal Access to Justice Act awards because of higher disability appellate workloads..	--	2,000,000	--	+200,000
13. Unit cost increases for supplies and materials............	--	24,183,000	--	+134,000
14. Contingency reserve increase.............	--	145,000,000	--	+15,000,000
Subtotal, program increases..........			--	+$170,670,000
Total, increases...			+1,575 (--)	+$233,327,000
Decreases:				
A. Built-in:				
1. Lower rental payments to GSA...............	--	$191,284,000	--	-$5,896,000
2. Decrease in new budget authority for purchase contract payments for facilities constructed under the Public Buildings Amendments of 1972..............	--	34,332,000	--	-417,000
Subtotal, built-in decreases..........			--	-$6,313,000

	1986 Base		Change from Base	
	Workyears (FTE's)	Budget Authority	Workyears (FTE's)	Budget Authority
B. Program:				
1. Decrease in SSA payroll due to reduced workyear needs as identified in the manpower analysis section of the general statement for this account:.............	80,588 (76,169)	$2,194,641,000	-2,008 (-2,899)	-$56,127,000
a. Aggregate increase in workload volumes such as OASI claims, appellate actions, and maintenance of the rolls (+1,307 WY's)				
b. Automation and streamlining associated with management initiatives (-2,046 WY's)				
c. Anticipated improvements in workload/employment balance (-1,315 WY's)				
d. Operations support functions such as case control and filing, training and supervision (+46 WY's)				

	1986 Base		Change from Base	
	Workyears (FTE's)	Budget Authority	Workyears (FTE's)	Budget Authority
2. Reduction in new budget authority after adjustment for definitional change as identified under the general statement for Information Technology System (ITS). (Since unused ITS funds are carried over from prior years the increase in 1987 over 1986 obligations is ($6,239,000)......	--	$231,338,000	--	-$5,941,000
3. Reduced costs for office furnishings and equipment........	--	14,750,000	--	-1,302,000
4. Lower costs due to one-time initiative completed in FY 1986 to purchase and install a supplemental air conditioning unit at headquarters......	--	400,000	--	-400,000
Subtotal, program decreases..........			-2,008 (-2,899)	-$63,770,000
Total, decreases...			-2,008 (-2,899)	-$70,083,000
Net change.........			-433 (2,899)	+$163,244,000

Limitation on Administrative Expenses

Budget Authority by Activity
(Budget authority in thousands)

	1985 Actual	1986 Appropriation	1986 Current Estimate 1/	1987 Estimate
Old-Age and Survivors Insurance:				
Amount..................	$1,259,413	$1,254,342	$1,215,979	$1,229,786
(Obligations)..........	($1,161,014)	($1,297,579)	($1,257,846)	($1,281,498)
Full-time equivalents..	32,810	32,854	31,596	30,265
Disability Insurance:				
Amount..................	$1,350,084	$1,416,753	$1,331,533	$1,416,577
(Obligations)..........	($1,206,093)	($1,437,972)	($1,356,322)	($1,448,247)
Full-time equivalents..	20,579	21,871	21,008	20,748
Health Insurance:				
Amount..................	$135,562	$141,229	$126,963	$142,331
(Obligations)..........	($129,673)	($147,547)	($133,015)	($148,897)
Full-time equivalents..	3,492	3,492	3,310	3,322
Supplemental Security Income:				
Amount..................	$892,436	$929,202	$929,678	$952,619
(Obligations)..........	($960,643)	($938,190)	($953,006)	($972,118)
Full-time equivalents..	18,790	17,163	18,005	16,829
Annual Reporting:				
Amount..................	$65,759	$69,038	$73,779	$76,145
(Obligations)..........	($66,778)	($71,202)	($79,939)	($81,339)
Full-time equivalents..	2,070	1,969	2,250	2,106
Construction:				
Amount..................	$33,332	$36,922	$31,432	$33,915
(Obligations)..........	($39,310)	($37,048)	($34,816)	($33,915)
Contingency Reserve:				
Amount..................	$50,000	$145,000	$138,765	$160,000
Total, budget authority by activity............	$3,786,586	$3,992,486	$3,848,129	$4,011,373
(Obligations)..........	($3,563,511)	($3,929,538)	($3,814,944)	($3,966,014)
Full-time equivalents..	77,741	77,349	76,169	73,270
(Rental Payments to GSA--Rent)..................	($238,270)	($228,895)	($225,057)	($219,303)
(ADP Telecommunications)				
(Amount)...............	($210,165)	($182,939)	($170,667)	($225,398)
(Obligations)..........	($130,072)	($264,865)	($273,129)	($340,039)

1/ Reflects a reduction of $144,357,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

Limitation on Administrative Expenses

Budget Authority by Object

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Full-time equivalent of full-time permanent positions	70,404	68,395	-2,009
Full-time equivalent of all other positions	5,765	4,875	-890
Total compensable workyears	79,013	78,580	-433
Average ES salary	$66,878	$66,978	+$100
Average GS grade	7.99	8.01	+0.02
Average GS salary	$25,087	$25,562	+$475
Personnel Compensation:			
Permanent positions	$1,788,675,000	$1,731,715,000	-$56,960,000
Positions other than permanent	107,595,000	136,398,000	+28,803,000
Other personnel compensation	45,929,000	92,877,000	+46,948,000
Special personal service payments	8,746,000	8,701,000	-45,000
Subtotal, personnel compensation	$1,950,945,000	$1.969,691,000	+$18,746,000
Personnel benefits	249,005,000	259,902,000	+10,897,000
Travel and transportation of persons	22,866,000	28,722,000	+5,856,000
Transportation of things	9,447,000	9,873,000	+426,000
Rent, communications and utilities:			
Rental Payments to GSA (Rent)	222,316,000	219,303,000	-3,013,000
Rental Payments to Others	483,000	1,242,000	+759,000
Communications, utilities and miscellaneous charges	178,128,000	178,675,000	+547,000
Printing and reproduction	22,454,000	22,241,000	-213,000
Other services	904,719,000	954,622,000	+49,903,000
(Payments to Disability State Agencies)	(741,206,000)	(760,000,000)	(+18,794,000)
Supplies and materials	20,288,000	30,729,000	+10,441,000
Equipment	126,011,000	173,864,000	+47,853,000
Lands and structures	576,000	192,000	-384,000
Insurance claims and indemnities	2,028,000	2,219,000	+191,000
Interest and dividends	98,000	98,000	—
Contingency reserve	138,765,000	160,000,000	+21,235,000
Total, budget authority by object	$3,848,129,000	$4,011,373,000	+$163,244,000

1/ Reflects a reduction of $144,357,000 pursuant to the Balanced Budged and Emergency Deficit Control Act of 1985, P.L. 99-177.

Limitation on Administrative Expenses

Significant Items in House and Senate Appropriations Committee Reports

Item	Action Taken or to be Taken
FY 1986 Conference Report	
Reduction in Full-Time Equivalent Employees	
House and Senate conferees agreed that an additional $30,000,000 be provided to support an employment level at the Social Security Administration of 77,349 full-time equivalent positions, an increase of 1,000 FTE's over the number requested.	The Limitation amount approved by the Congress for 1986 has been reduced by $144,357,000 in budget authority, pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177; $30,000,000 of the required reduction will be obtained by maintaining FTE's at the 1986 President's budget level. We do not anticipate that this action will result in any diminution of service to the public in terms of processing times, waiting times in district offices, or payment accuracy.
FY 1986 House Report	
Analysis of Manpower Needs of the Agency	
While the Committee has in the past agreed with the President that staff savings are possible at SSA through management efficiencies and reforms, the Committee maintains that a 20 percent reduction in staff does not seem realistic and has not been supported by data submitted to the Committee. Before approving a further reduction in Social Security staff, the Committee expects to receive a well thought out and well documented analysis of the manpower needs of the Agency.	An analysis of SSA's manpower requirements and the effect of past staff reductions on beneficiary services is included in this document.

Limitation on Administrative Expenses

Significant Items in House and Senate Appropriations Committee Reports - Continuing

Item	Action Taken or to be Taken
FY 1986 House Report	
Reduction in Number of Field Offices	
The Committee's primary concern with SSA's field structure is the need to provide service to the public in a timely and convenient manner. The Committee said it will insist that any plan to reduce the number of field offices be accompanied by a thorough analysis of the impact of such a change on Social Security beneficiaries.	In a letter dated November 7, 1985, Mr. John J. O'Shaughnessy, Assistant Secretary for Management and Budget, HHS, assured the Committee that there is no plan to close a large number of Social Security offices.
Measuring Service to the Public	
The Committee expressed concern about the lack of dependable data with which to measure the effect of changes in SSA's administrative activities on service to the public. The Committee directed the Commissioner to develop a report with key indicators that measure SSA's service to the public by January 1986, and to submit data to the Committttee quarterly for at least the next two fiscal years.	A report with key indicators that measures SSA's service to the public is being prepared and will be sent to the Committee early in March 1986. Subsequent reports updating SSA's performance will be sent to the Committee quarterly for the next two fiscal years.
Online Verification System	
The Committee has fully supported efforts on behalf of the Administration to modernize SSA's computer system and is interested in ensuring that the system is being properly and fully utilized. The Committee asked to be informed about the feasibility, costs and time required to implement an on-line account number verification system to permit immediate access by employers and/or individuals attempting to verify Social Security numbers.	A report will be sent to the Committee early in March 1986.

Limitation on Administrative Expenses

Significant Items in House and Senate Appropriations Committee Reports -Continuing

Item	Action Taken or to be Taken
FY 1986 Senate Report Systems Modernization Plan	
The Committee directed the Secretary to implement the recommendations of the General Accounting Office in its August 30, 1985 report on the Systems Modernization Plan (SMP). The Committee directed the Secretary to conduct a comprehensive risk analysis of the 1985 modifications to the software engineering program and to transmit the results of the risk analysis to the Committee by January 1, 1986, unless the Secretary restores the 1982 SMP objectives for software engineering which GAO found more compatible with legislative flexibility.	A report explaining SSA's current policy for software development and policy related to improving systems security will be sent to the Committee early in March 1986.
The Committee also directed the Secretary to implement the August 30, 1985 recommendations of the GAO with regard to the development of an audit trail capability in the current operation system that identifies authorizers for all transactions.	

Limitation on Administrative Expenses

Authorizing Legislation

	1986 Amount Authorized	1986 Current Estimate	1987 Amount Authorized	1987 Budget Request
Title II, Section 201(g)(1) of the Social Security Act.......	Indefinite	$3,848,129,000 1/	Indefinite	$4,011,373,000

1/ Reflects a reduction of $144,357,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

Limitation on Administrative Expenses

Table of Estimates and Appropriations

Fiscal Year	Budget Estimate To Congress	House Allowance	Senate Allowance	Appropriation
1978	$2,716,000,000	$2,718,000,000	$2,718,000,000	$2,718,000,000
1979	2,351,342,000	2,272,087,000	2,289,087,000	2,272,087,000
1980	2,461,700,000	2,444,791,000	2,444,791,000	2,444,791,000
1981	2,862,231,000	2,747,050,000		2,777,050,000
1982	3,060,838,400	3,131,000,000	3,131,000,000	3,131,000,000
1983	3,511,885,000	3,511,885,000	3,511,885,000	3,511,885,000
1984	3,723,317,000	3,718,303,000	3,723,317,000	3,718,303,000
1985	3,724,515,000	3,784,415,000	3,790,515,000	3,787,515,000
Proposed Supple-mental	-9,176,000[1/]			
1986	3,992,486,000[2/]	4,022,486,000	3,992,486,000	3,992,486,000
1986 Sequester order	144,357,000			
1987	4,011,373,000			

[1/] A supplemental was proposed in FY 1985 for reductions in travel, consultant services, printing and public affairs activities as required by section 2901 of the Deficit Reduction Act of 1984.

[2/] The FY 1986 estimate does not reflect a reduction of $266,000 in consulting and related services required by section 515 of the Treasury Appropriations bill, as incorporated by the Continuing Resolution for FY 1986 (Public Law 99-190). The FY 1986 estimate to Congress includes a $80,900,000 budget amendment to fund current law requirements for Federal civilian pay.

Limitation on Administrative Expenses

Justification

Account Summary

	1986 Appropriation	1986 Current Estimate 1/	1987 Estimate	Increase or Decrease
Limitation on Administrative Expenses:				
Budget authority.......	$3,992,486,000	$3,848,129,000	$4,011,373,000	+$163,244,000
(Obligations)..........	($3,929,538,000)	($3,814,944,000)	($3,966,014,000)	(+$151,070,000)
Full-time equivalents..	77,349	76,169	73,270	-2,899
Workyears..............	82,255	79,013	78,580	-433

General Statement

The Social Security Administration's (SSA) primary responsibility is to administer the Nation's major income security programs. The limitation on administrative expenses (LAE) account finances from the Social Security trust funds most of SSA's administrative costs. It provides resources for SSA to administer the Social Security programs of old age, survivors and disability insurance, certain health insurance functions and the supplemental security income (SSI) program for the aged, blind and disabled. Funds for annual reporting of earnings and certain activities related to pension reform also are included, as well as the trust fund construction and automated data processing (ADP) expense accounts. Administrative expenses of the SSI program and of those pension reform activities that are appropriately charged to Federal funds are reimbursed to the trust funds from the Supplemental Security Income account and the Payments to Social Security Trust Funds account, respectively.

The following table shows estimated outlays and beneficiaries for FY 1987, under current law, for the major programs administered through this account:

	FY 1987 Estimate Under Current Law	
Programs	Federal Benefit Outlays ($ in billions)	Average Number of Beneficiaries Paid (in millions)
Old-age and survivors insurance...	$186.6	34.0
Disability insurance..............	$20.2	4.0
Supplemental security income......	$9.6	4.3

1/ Reflects a reduction of $144,357,000 in budget authority and $138,122,000 in obligations pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 97-177. The effect on LAE outlays is a reduction of $125,243,000.

SSI beneficiaries include 352,000 recipients of federally-administered State supplementation payments who do not receive any of the basic Federal benefit.

Comparison of Administrative Costs with Present Law Income and Benefits

The principal source of income to the trust funds for the Social Security old-age, survivors, and disability insurance (OASDI) and health insurance programs is the Social Security tax on employees, employers, and self-employed persons.

The total administrative costs of the Social Security trust fund programs include:

--Administrative expenses for Social Security Administration components, costs for the Disability State Agencies and expenses associated with certain personnel and disability legal functions of the Department of Health and Human Services.

--Construction and facilities maintenance costs.

--ADP and telecommunications costs.

--A share of costs associated with departmental management of the Social Security Administration.

--Social Security-related work performed by other Federal agencies such as the Treasury Department, which issues the Social Security checks.

As indicated in the table below, the total FY 1987 administrative cost for the OASDI programs is estimated to be 1.2 percent of anticipated income to the OASI and DI trust funds under current law and 1.2 percent of estimated benefit payments.

Administrative Expenses as a Percentage of Trust Fund Income and Benefit Payments - Fiscal Year 1987

Trust Fund	Percent of Income	Percent of Benefit Payments
Old-age and survivors insurance......................	.9%	1.0%
Disability insurance...........	4.0%	3.9%
Total, Social Security trust fund programs.........	1.2%	1.2%

Supplemental Security Income Program

The supplemental security income program is financed entirely from the general funds of the Treasury. The FY 1987 administrative costs of this program are forecast at 8.4 percent of benefit payments (including State supplemental benefit payments administered by SSA). In many cases, SSI benefits supplement other income. Average monthly SSI payments are much lower than the average OASI and DI payments, and the administrative cost-to-program payments ratio is higher than that for Social Security programs.

Employment

A. Positions, FTE's and Workyears

A summary of SSA's full-time equivalent (FTE) and workyear estimates and associated employment needs is provided below. FTE's measure the cumulative workyears of effort during the fiscal year by full-time, part-time and temporary employees subject to employment ceilings. Total workyears include FTE's, overtime, and nonceiling workyears associated with summer aids and other special program employees.

The limitation on administrative expenses (LAE) covers trust fund and SSI program needs. "All programs" includes assistance payments, black lung, low income home energy assistance and reimbursable work in addition to LAE.

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
FTE's			
LAE only..................	77,741	76,169	73,270
All programs..............	78,967	77,346	74,384
Total workyears			
LAE only..................	82,131	79,013[1]	78,580
All programs..............	83,406	80,260[1]	79,797
Full-time permanent (FTP) positions authorized			
LAE only..................	76,860	74,427	71,832
All programs..............	78,187	75,670	73,000
Full-time permanent positions filled end-of-year			
LAE only..................	71,048	70,172	67,240
All programs..............	72,225	71,317	68,317

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[1] Total workyears for the FY 1986 estimate when compared to the FY 1986 appropriation includes a reduction of 3,242 workyears for LAE and 3,251 workyears for all programs (3,242 workyears for LAE and 9 workyears for Black Lung) pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

B. Mix of Overtime and FTE's

	Workyears (All Programs)					
	FY 1985		FY 1986		FY 1987	
Type	Actual	Percent of Total	Estimate	Percent of Total	Estimate	Percent of Total
FTE's.......	78,967	94.7%	77,346	96.4%	74,384	93.2%
Nonceiling workyears..	2,103	2.5%	1,079	1.3%	1,796	2.3%
Overtime....	2,336	2.8%	1,835	2.3%	3,617	4.5%
Total...	83,406	100.0%	80,260	100.0%	79,797	100.0%

Overtime is sometimes appropriate and necessary to help handle one-time, seasonal, or peaking workloads such as annual reports of earnings and SSI redeterminations. Actual overtime worked in FY 1985 was about 1,400 workyears less than budgeted (2.8 percent of actual total workyears compared to 4.4 percent in the budget). The primary reasons for this were:

1. The FY 1985 budget included 1,649 workyears for implementation of taxation of benefits. Most of these workyears were expected to be needed to respond to inquiries about the 40 million benefit statements which were mailed to beneficiaries for the first time in January 1985; and much of the inquiry work was expected to be accomplished on overtime. SSA received only about 13 percent of the inquiries it expected and expended only 618 total workyears on taxation of benefits in FY 1985.

2. The FY 1985 budget was based on the assumption that the continuing disability review (CDR) moratorium, which was announced by the Secretary on April 13, 1984, would be lifted on April 1, 1985. Since the CDR moratorium was not lifted until January 6, 1986, SSA's overtime needs were less than expected.

In FY 1986 SSA's overtime rate and level of nonceiling workyears have been reduced because of the sequestration of funds required by the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177. These reductions will not require reductions-in-force or furloughing of Federal employees. However, should they lead to rising backlogs, increased processing times or other deteriorations in service to the public, consideration will be given to tapping the contingency reserve to increase workyears.

In FY 1987 nonceiling workyears are restored to a higher level, and overtime is increased to 4.5 percent of total workyears. This is approximately the same level of overtime which was budgeted for FY 1985 (4.4 percent in the FY 1985 column of the FY 1986 President's budget), and which actually was worked in FY 1984 (4.6 percent) and in FY 1983 (4.5 percent).

Additional information on SSA's workyear and employment requirements is provided in the special "Manpower Analysis" section of the LAE justification.

Automated Data Processing and Telecommunications

The budget request for the limitation account includes amounts shown in the following table for automated data processing (ADP) and telecommunications lease and purchase of hardware and software, supplies, and contractual services (excluding SSA personnel costs). The amounts shown include the costs of major telephone system procurements, ongoing system costs, and costs for continued implementation of SSA's Systems Modernization Plan (SMP). The SMP is replacing SSA's outdated system of hardware, software and storage capacity with one that is modern, efficient and reliable. The table shows new budget authority requested, estimated obligations, and the sources of funds for ADP/telecommunications obligations for FY 1985 through FY 1987 for the limitation account. The estimate of FY 1986 obligations reflects the effects of the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177, which decreases amounts available for obligation by $12,272,000. (Columns may not add due to rounding.)

ADP/Telecommunications Obligations
($ in thousands)

	FY 1985 Actual	FY 1986 Current Estimate	FY 1987 Estimate
New budget authority			
(Appropriation)	$210,166	$182,939	$225,398
(ADP/telecommunications)	(192,102)	(139,601)	(176,514)
(Major telephone systems)	(18,064)	(43,338)	(48,884)
Amount Sequestered under P.L. 99-177	---	-12,272	---
Unobligated balances carried forward:			
--from FY 1984 to FY 1985	+124,140	---	---
--from FY 1985 to FY 1986	-217,103	+217,103	---
--from FY 1986 to FY 1987	---	-114,641	+114,641
Recoveries of prior years' obligations	+2,870	---	---
Transfer from unobligated balance in construction account	+10,000	---	---
Total obligations	$130,072	$273,129	$340,039
(ADP/telecommunications)	(127,717)	(223,526)	(258,866)
(Major telephone systems)	(2,355)	(49,603)	(81,173)

FY 1987 obligations increase in part because SSA proposes to broaden the definition of telephone costs which are included in the no-year earmark in the limitation account. We do not believe that this definitional change requires a change in appropriation language, but we want to bring the proposed change to the attention of the appropriations committees. At present, only telephone equipment purchases are included in the no-year earmark. We propose to include lease, maintenance and voice communication costs as well.

Procurement regulations require contracting officers to consider alternative procurement methods--purchase, lease or lease-with-option-to-purchase--and to select the plan offering the lowest cost to the government. Currently, SSA applies no-year funds only to purchase of telecommunications equipment and not to leases, and prior budget requests have reflected this approach. If we determine that a lease or lease-purchase plan is the most cost beneficial, no-year funds cannot be used.

Good business practice dictates that if a procurement action could result in either a lease or a purchase, the funds for the action should be budgeted in the same place. The ADP portion of the no-year earmark already includes the same categories of communications costs that we want to include for telephone communications (lines, equipment, and maintenance). In addition, General Accounting Office classification of the telephone industry as a "utility" now permits entering into multi-year leasing and maintenance contracts. No-year funding availability would be consistent with this approach.

The increase in FY 1987 obligations due to this definitional change is +$50,895,000. The FY 1986 estimate for leasing and maintenance of telephone systems is $48,399,000, although in FY 1986 these activities are not included in the no-year earmark. Thus the actual net year-to-year increase for these activities in the LAE account is $2.5 million. The following table shows LAE ADP/telecommunications obligations for FY 1986 and FY 1987, adjusted for comparability for this definitional change ($ in thousands):

	FY 1986	FY 1987	Change
Present definition of ADP/telecommunications.......	$273,129	$289,144	+$16,015
Proposed change in definition in FY 1987 to include leasing and maintenance of telephone systems......................	(+48,399)	+50,895	+2,496
Total obligations.............	$273,129	$340,039	+$66,910
Total obligations adjusted for comparability............	($321,528)	$340,039	(+$18,511)

Although new budget authority for ADP/telecommunications decreases in FY 1986 from FY 1985, FY 1986 obligations are estimated to be more than double the FY 1985 amount due to carryover of unobligated balances from FY 1985. Obligations in FY 1987 show an increase over the FY 1986 level, and include funds carried over from FY 1986.

The major reasons for the carryover of funds from FY 1985 are:

- Substitution of in-house programming for outside contracting on some claims modernization software;
- Lower costs for some office automation projects;
- Delays in the procurement process which have affected some contracts such as those for communications processors and data base architecture;
- Deferrals of office automation and other minor procurements; and
- Delays in State-wide phone acquisitions.

The major reasons for the increase in ADP/telecommunications obligations in FY 1986 and FY 1987 over FY 1985 are:

- Procurement of terminals, printers, modems and related equipment for the Data Communications Utility (DCU)/Terminal Acquisition Project (TAP), which will replace SSA's current telecommunications networks with a nationwide, integrated system. This will support objectives of the Claims Modernization Project, the National Debt Management System and other SMP projects.
- Replacement of outmoded hardware in the processing centers.
- An increase for the acquisition of the telecommunications host processor.

SSA continues its significant progress with the SMP. Some of the major projects for FY 1986 and FY 1987 are summarized briefly below:

	($ in millions) FY 1986	 FY 1987
Claims Modernization Project and Program Benefits Logical Applications Group	$4.1	$6.7

These software development efforts will modernize the process by which SSA receives and adjudicates claims, resulting in faster access to information and more accurate computation of benefit amounts.

Data Base Architecture	---	$9.1

Complete, up-to-date and accurate information about an individual is required to process a claim and perform other transactions in a timely and efficient manner. The goal of this project is to provide SSA with an organized system to handle all its records of identity, earnings and benefits for more than 250 million individuals...and, to have this data available, for each person in response to just one input. This is often called a "whole person" information concept.

Data Communications Utility/Terminal
Acquisition Project........................... $43.6 $66.9

This project will modernize the SSA telecommunications network that connects all field offices, program service centers and data operations centers with our central computer facilities. This new network will speed up processing of messages 24 hours per day, 7 days per week, via terminals located nationwide. This will permit faster processing of claims and beneficiary inquiries by providing direct access to a beneficiary's records to the thousands of SSA employees who serve the public daily.

Telecommunications Host Acquisition.......... $1.0 $34.5

This acquisition will replace the host computers that handle SSA's telecommunications traffic. Because of the new telecommunications network, larger processors will be needed to handle expanding computer workloads under the claims modernization project and other modernization efforts.

Program Service Center Hardware.............. $21.6 $6.1

This project will modernize the systems that process claims, make payments, track cases and provide management information in the six program service centers (PSC's). The current processors are obsolete.

Disk Capacity Increase....................... $1.0 $10.0

Although all of SSA's major master files are now stored on disk, we will continue to convert all files used to maintain beneficiary records from tape storage to this more efficient and reliable storage system. This will permit faster access to information.

FY 1986-FY 1987 Initiatives

A. Disability Program

Final regulations providing the revised medical improvement standard for determining continuing eligibility for Social Security and SSI disability benefits were published in the Federal Register on December 6, 1985. The new standard is the cornerstone of the new continuing disability review (CDR) process, which has just begun. In conjunction with other changes included in the Disability Benefits Reform Act of 1984 (P.L. 98-460), it lays the groundwork for the administration of a fair, compassionate and nationally uniform disability program.

The medical improvement standard establishes criteria to be applied in determining whether a person's disability continues. Individuals will continue to receive disability benefits if current medical evidence shows no improvement in their ability to work since they were last evaluated, or certain exceptions are met.

In addition to the medical improvement standard, other important activities to implement the new disability legislation FY 1986 and FY 1987 include the following:

- Re-review in FY 1986 of 185,000 mental impairment cases denied since enactment of P.L. 98-460 in October 1984, under new rules for evaluating individuals with mental impairments. These new rules are designed to determine the ability of individuals with mental impairments to function in a competitive work environment, and were formulated after extensive consultation with mental health experts from the public and private sectors. The new mental impairment criteria require a more intensive review of each case due to increased documentation requirements, and reviews by qualified psychiatrists and psychologists will be conducted in all mental impairment decisions.

- Evaluation of the combined effects of all of an individual's impairments in determining whether the individual has a severe impairment, rather than the effects of each impairment separately, and the consideration of those combined effects throughout the medical-vocational sequential evaluation process.

- o Preparation of written rationales in all favorable decisions in addition to all unfavorable decisions (the current practice). Incorporating written rationales into all decisions improves the quality of the disability determination process, provides a detailed record for substantiating the decision, and ensures that all disability issues are completely considered in arriving at a final determination.

- o Until June 1988, permitting individuals notified of medical cessation decisions to elect to have Social Security disability benefits and Medicare coverage continued during the appeal process through the administrative law judge (ALJ) decision. This provision for benefit continuation also applies permanently to supplemental security income cases. Continued benefits are subject to recovery as overpayments if the initial CDR decision is upheld.

- o Establishing demonstration projects to permit the applicant/beneficiary an opportunity to meet face-to-face with the disability determination decisionmaker in cases where an unfavorable decision is being proposed.

Budget for Disability State Agencies

The budget for the Disability State Agencies is summarized below:

	FY 1986	FY 1987
Dollars....................	$741,206,000	$760,000,000
Workyears.................	13,600	13,750

This request includes the following assumptions regarding State agency costs in both FY 1986 and FY 1987:

--The average salary is estimated at $28,300.
--Other costs (e.g., training, travel, equipment, postage, telephones) are estimated at $6,233 per workyear.
--The ratio for computing costs for various State support services ("indirect costs") is 10.3 percent.
--The estimated unit cost for consultative examinations is $175.00, and the estimated unit cost for medical evidence of record is $24.50.

Most of the work related to the Disability Benefits Reform Act of 1984 will be done by the Disability State Agencies which make disability determinations and handle face-to-face reconsiderations on behalf of the Department of Health and Human Services. State agencies must process the reapplications and subsequent reconsiderations for the mental impairment cases subject to review and must review cases under the new medical improvement standard.

Key workloads for the Disability State Agencies are shown below:

	FY 1986 Estimate	FY 1987 Estimate
New claims (excluding re-reviews)	1,667,000	1,631,000
Re-reviews	185,000	-0-
CDR's	347,000	478,200
Reconsiderations	612,800	720,400
(Face-to-face reconsiderations included above)	(17,800)	(100,300)

The revised estimate of CDR workloads for FY 1986 is less than the estimated volume in the FY 1986 President's budget (431,000 total CDR's in the FY 1986 President's budget), because the President's budget assumed that the CDR moratorium would be lifted in FY 1985 and therefore CDR's would be processed during the whole year in FY 1986. CDR processing did not begin until after publication of the final regulations regarding medical improvement, which occurred in December 1985. However, the decrease in the CDR workload is more than offset by workload increases primarily for processing the mental impairment re-reviews.

Hearings Workloads

The table below shows budgeted hearings workloads received and processed by SSA's Office of Hearings and Appeals (OHA) in FY 1985, FY 1986 and FY 1987.

Hearings (All Programs)

	FY 1985 Estimated Actual	FY 1986 Current Estimate	FY 1987 Estimate
Pending at start-of-year	107,781	91,575 *	124,075
Receipts	244,105	296,500	336,000
Processed	244,311	264,000	305,000
Pending at end-of-year	107,575	124,075	155,075

* Hearings pending at the start of FY 1986 exclude mental impairment cases pending at the end of FY 1985 which were returned to the Disability State Agencies for re-review under the revised mental impairment criteria.

Most (95 percent) of the hearings processed by OHA are disability insurance or SSI disability hearings resulting from Disability State Agency denials of reconsidered initial applications and CDR cessations. Hearing receipts are estimated to increase in FY 1986 and FY 1987 because of workloads resulting from implementation of the Disability Benefits Reform Act of 1984.

In FY 1986, SSA will reassess certain cases under the new mental impairment standards. In FY 1987, the CDR cases processed by the State agencies in FY 1986 will reach the OHA appellate level in significant volume. Although the budget shows an increase in hearing pending levels as the one-time mental impairment workloads and the initial volumes of CDR cases are received in OHA, pendings are expected to decline once decisions have been rendered on the bulk of these one-time and start-up workloads.

SSA plans during this period to maintain a stable corps of 720-750 administrative law judges (ALJ's). We anticipate some ALJ recruitment to cover a higher than normal ALJ attrition rate. However, we don't plan to hire and train a large increment of new ALJ's for a 1-year period to deal with a temporary increase in pendings, only to reduce the ALJ corps significantly after pendings return to normal levels.

B. Debt Collection

The FY 1987 budget reflects SSA's continuing efforts to reduce overpayments and collect money owed by the public, with due process rights provided to beneficiaries. The following table summarizes total collections, recovery costs and net savings for the OASI, DI, and SSI programs, including federally-administered State supplementation of SSI benefits:

	($ in millions)		
	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
Anticipated collections......	$1,262.1	$1,167.0	$1,288.0
Avoided overpayments.........	300.0	312.0	323.0
Subtotal, savings..........	$1,562.1	$1,479.0	$1,611.0
Collection costs.............	212.3	206.7	204.0
Net savings.............	$1,349.8	$1,272.3	$1,407.0
Federal workyears............	7,423	6,816	6,583

The FY 1986-FY 1987 budget reflects the following policies and initiatives:

- Continuation of the Commissioner's initiative to reduce earnings-related overpayments. We estimate that this initiative reduces earnings-related overpayments by $300 million annually, beginning in FY 1985. These savings flow from an increased emphasis on the need for beneficiaries to provide accurate current year earnings estimates during the annual report process, and a special annual report mailer sent in August each year to beneficiaries most likely to have underestimated or not reported earnings. Responses to the mailer are used to adjust benefits to the correct levels for that year.

- SSA plans to reconcile beneficiary and employer reports of 1984 earnings in FY 1986, and 1985 earnings in FY 1987. These operations compare the beneficiary's annual earnings report and the annual wage report (W-2), and are done approximately 16 months after the close of a calendar year. This time allows SSA to receive and process W-2 forms and resolve discrepancies with employer's magnetic tape reports. In FY 1985, SSA accelerated the enforcement process sufficiently to clear all enforcement debt in the same fiscal year it is detected. SSA has improved the process by issuing overpayment notices immediately upon detecting a difference between the W-2 report and the beneficiary's annual wage report. This procedure saves over 300 workyears annually, beginning in FY 1985.

- SSA is developing and negotiating specifications with the Treasury Department for use of the Treasury lockbox remittance network to process SSA's receipt and deposit operations. Phased implementation is scheduled for FY 1986. This procedure is expected to save about 81 workyears annually because remittances will be directed to the selected bank and deposited within 24 hours, rather than be received and processed in the program service centers.

- The Deficit Reduction Act of 1984:

  --Allows a match of SSA's supplemental security income rolls with IRS records to detect unreported income and assets of SSI recipients. We estimate that this initiative will cost 132 workyears ($4.7 million) annually to process the alerts generated by the SSA/IRS interface, but that we will save about $40 million in the SSI program in FY 1986 and in FY 1987 due to avoided overpayments and increased collections.

  --Limits the SSI overpayment recovery rate to the lesser of 10 percent of the SSI recipient's countable income or the actual check amount. This will slow down the rate at which SSI overpayments are repaid.

- Other improvements to the debt management process include:

  --Design of a National Debt Management System to interact with SSA's benefit payment systems and serve as SSA's principal mechanism to manage all debt recovery activities in the future.

  --Automation of SSI overpayment notices in FY 1987.

  --A new waiver procedure in FY 1987, transferring responsibility for the waiver decision from the processing centers to the district offices. This will allow district office personnel to hold a personal conference with the beneficiary at the same time the waiver request is filed.

- New debt is expected to decline due to SSA's efforts to prevent debts caused by beneficiary or agency errors. Debt clearances also will decline as a result of prevention of earnings-related overpayments, and annual collections have stabilized. However, because we have taken steps to eliminate earnings-related debt, which has a fast clearance rate, the rate of clearing the remaining receivables will decline (e.g., for beneficiaries who are no longer on the rolls; due to legal limits on the amounts of SSI check adjustments; etc.).

C. Reconciliation of SSA and Internal Revenue Service (IRS) Wage Data

The reconciliation of SSA and IRS wage data involves comparison of annual wage amounts reported to SSA on W-2's and W-3's to quarterly wage amounts reported by employers to IRS, and reconciling discrepancies. With the move to annual wage reporting for tax year 1978, IRS assumed responsibility for reconciliation. However, IRS concentrates on the cases in which a tax liability is involved. As a result, many cases remain unreconciled.

Each unreconciled employer report can contain errors affecting one or more employees. If these reports are not reconciled, the individual employee earnings records maintained by SSA could be inaccurate, resulting in more work later on for SSA, or overpayment or underpayment of Social Security benefits.

The FY 1987 budget includes 355 workyears for reconciling problem wage reports. Employers with missing or discrepant reports will be asked by IRS to submit correction forms or provide explanations to SSA. SSA will review the responses, make determinations of the correct wage amounts, and take whatever corrective actions are necessary. This reconciliation work may begin earlier, in FY 1986, to the extent that resources are available after absorption of the spending reductions required by the Balanced Budget and Emergency Deficit Control Act of 1985.

D. Budget for the Costs of the Public Members of the Boards of Trustees of the Social Security Trust Funds

Following a recommendation of the National Commission on Social Security Reform, the Social Security Amendments of 1983 (Public Law 98-21) expanded the Boards of Trustees of Social Security and Medicare from three members to five. The original Trustees--the Secretary of the Treasury, the Secretary or Labor, and the Secretary of Health and Human Services, serving in an ex-officio capacity--are compensated and receive support services in their official Executive Branch capacities. The two new members of the Boards are private citizens and, except for Presidential appointment and Senate confirmation, are "independent" Trustees.

The statute creating public membership on the Boards is silent as to compensation and support services for the Public Trustees. As Secretaries of the Boards of Trustees of the OASDI and Medicare Trust Funds, the Commissioner of Social Security and the Administrator of the Health Care Financing Administration (HCFA) have certain implied authorities and responsibilities to assist the Public Trustees in the conduct of their official duties. Under these authorities, and at the direction of the Boards of Trustees, funds necessary for the support of the Public Trustees have been budgeted in the LAE account. The account includes funding of $285,000 in FY 1986 and $299,300 in FY 1987 to provide for compensation of the Public Trustees while on the business of the Boards, travel, and support of their other trust fund-related activities.

Contingency Reserve

The FY 1986 LAE appropriation includes a contingency reserve of $145 million. As a result of the Balanced Budget and Emergency Deficit Control Act of 1985, the contingency reserve available in FY 1986 is reduced by $6,235,000 to $138,765,000. An increase above the traditional $50 million reserve had been requested, in FY 1986, primarily to provide flexibility to deal with the many uncertainties associated with implementation of the Disability Benefits Reform Act of 1984 and also to deal with the impact of automation. SSA is asking that the contingency reserve be increased in FY 1987.

In the FY 1986 President's budget, SSA assumed that the necessary final regulations would be published and the CDR moratorium lifted during FY 1985. This process has taken longer than expected, with publication of final regulations regarding the new medical improvement standard in December 1985. As a result, at this time we still have insufficient experience with the new regulations for implementing the Disability Benefits Reform Act of 1984 to predict accurately what the costs of implementation will be. For this reason we request a contingency reserve of $160 million in FY 1987. If actual experience indicates that additional resources are required in the disability area, which cannot be absorbed by savings in other areas, we will request that the contingency reserve, which is available to deal with unbudgeted workloads, be apportioned to meet those needs. In addition, the contingency reserve is available to meet potential costs related to the impact of automation on the SSA workforce--for example, retraining and relocation of employees whose jobs may be affected by implementation of claims modernization or other changes resulting from the Systems Modernization Plan.

Major Changes in the FY 1986 Budget

The following developments necessitate changes in previous budget plans for the limitation account for FY 1986:

- Enactment of the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) required reductions in the limitation account; however, funds appropriated for the Disability State Agencies ($741,206,000) were not subject to sequester because of the language in Section 256(b)(3) of the Act.

- Implementation in FY 1985 of the taxation of benefits provision of the Social Security Amendments of 1983 proved to require much fewer resources than budgeted.

- Average salary costs will be lower than estimated for the FY 1986 appropriation.

- Delay in publication of the final regulations for the medical improvement standard, as required by the Disability Benefits Reform Act of 1984, resulted in delay in the resumption of continuing disability review (CDR) processing.

- The Jordan court decision which mandates periodic accounting for all representative payees will require additional resources to implement.

- Additional resources are needed for the Office of the General Counsel (OGC) for disability court case work. In FY 1985 certain OGC employment and resources were included in the limitation account for the first time, with the approval of the Appropriations Committees.

The costs or savings due to changes in budget plans for FY 1986 are shown in the table below. The comparison is one between the FY 1986 appropriation and the current estimates for the FY 1986 operating budget (FY 1986 column of the FY 1987 budget), after Gramm-Rudman-Hollings sequestration of $144,357,000 in budgetary resources for FY 1986.

	Changes in FY 1986 Budget Plans	
	Workyears	Budget Authority ($ in millions)
FY 1986 Appropriation.........	82,255	$3,992.5
FY 1986 Current Estimate......	79,013	3,848.1
Change in budgetary resources.................	-3,242	-$144.4

	Explanation of Major Changes	
	Workyears	Budget Authority ($ in millions)
Increases:		
1. Additional FTE's for the Office of the General Counsel for litigation involving disability determinations........	+260	+$7.1
2. Implementation of Jordan court decision which mandates periodic accounting for all representative payees. Jordan requires more work-years than required by the Disability Benefits Reform Act of 1984 which permitted a custody verification in lieu of a detailed accounting from parent and spouse payees living with the beneficiary......	+91	+2.5
3. Recontact widows/widowers to obtain current status for continuing eligibility.......	+65	+1.8
4. Net change after repricing planned management,procedural and systems changes...............	+394	+11.2
5. Net change in workload estimates (e.g., RSI and SSI claims are higher than estimated in the FY 1986 President's budget, but DI claims are lower; SSI redeterminations and representative payee accountings are higher, but CDR's and hearings are lower)....	+308	+5.9

	Explanation of Major Changes	
	Workyears	Budget Authority ($ in millions)
6. Net changes in the Disability State Agencies workyear estimates (+435 workyears) based on changes in workload estimates and production rates resulting from the planned implementation of the Disability Benefits Reform Act of 1984 in FY 1986....	---	+$16.5
7. Increase in consultant services for several projects in the disability, systems and program instruction areas that were not anticipated in the consultant service estimates in the FY 1986 President's budget............................	---	+2.4
8. Other changes not anticipated in the FY 1986 President's budget--includes attorney fees for the Equal Access to Justice Act (+$1.4 million); implementation of the relocation income tax allowance for employees who move for the convenience of the Federal government (+$5.3 million), increased costs related to the Claims Modernization Project/Field Office Systems Enhancement (+$3.0 million))..................	---	+10.9
Net increase.................	1,118	+$58.3
Decreases:		
1. Reductions in budgetary resources in FY 1986 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177)........	-3,062	-$144.4

	Explanation of Major Changes Workyears	 Budget Authority ($ in millions)
2. Based on FY 1985 experience, fewer workyears than budgeted will be required for taxation of benefits work in FY 1986......	-650	-$21.7
3. Reduced volume of alerts and subsequent overpayments resulting from the interface of IRS and SSI program records to detect unreported assets of SSI recipients, as provided in the Deficit Reduction Act of 1984 (P.L. 98-630)....................	-648	-17.3
4. Decrease in Disability State Agency costs for the purchase of consultative examinations and medical evidence of record based on the planned implementation of the Disability Benefits Reform Act of 1984......................	---	-16.5
5. Net, other changes...............	---	-2.8
Decrease......................	-4,360	-$202.7
Net change in budgetary resources....................	-3,242	-$144.4

Program Accomplishments

During the past 5 years (FY 1982-FY 1986), the Social Security Administration has performed its basic mission to:

--make monthly cash payments to old-age and survivors insurance (OASI), disability insurance (DI), and supplemental security income (SSI) beneficiaries, and to keep the benefit rolls up-to-date;

--process new claims for OASI, DI and SSI benefits;

--process appeals related to claims for OASI, DI and SSI benefits;

--check on the continuing eligibility of beneficiaries on the rolls, for example, through continuing disability reviews, annual reports of earnings and periodic redeterminations of SSI eligibility;

--maintain earnings records for the Nation's active workers, as a base for determining eligibility to Social Security benefits and the benefit amounts; and

--issue Social Security numbers.

Some of the representative indicators of this performance are shown below:

	Average Beneficiaries In Current Payment Status		
Fiscal Year	OASI	DI	SSI 1/
1982......................	31,804,000	4,357,000	3,978,000
1983......................	31,908,000	3,917,000	3,873,000
1984......................	32,303,000	3,813,000	3,923,000
1985......................	32,740,000	3,830,000	4,065,000
1986 estimate...........	33,323,000	3,927,000	4,153,000

	New Claims Processed		
Fiscal Year	OASI	DI	SSI
1982......................	3,254,400	1,350,900	936,500
1983......................	3,209,300	1,274,200	1,045,600
1984......................	3,092,100	1,268,500	1,228,300
1985......................	3,228,800	1,243,300	1,229,000
1986 estimate...........	3,294 100	1,313,300	1,380,100

1/ Includes recipients of federally-administered State supplementation payments.

Appeal Actions Processed
(reconsiderations, hearings and appeals)

Fiscal Year	OASI	DI	SSI
1982................	36,800	662,800	410,400
1983................	38,000	822,000	429,800
1984................	43,400	678,600	445,200
1985................	44,500	606,300	440,000
1986 estimate.......	46,200	650,300	472,400

Continuing Eligibility Activities

Fiscal Year	SSI Redeterminations	Continuing Disability Reviews 1/ (CDR's)	Annual Reports of Earnings
1982............	3,161,900	737,100	2,384,200
1983............	3,340,700	733,000	2,748,800
1984............	3,123,700	372,300	2,468,200
1985............	2,572,400	134,000	1,269,500
1986 estimate...	2,555,600	412,700	1,293,800

Other

Fiscal Year	Annual Earnings Items Posted	New and Replacement Social Security Cards Issued
1982......................	211,217,300	11,733,000
1983......................	199,819,900	13,055,500
1984......................	193,653,200	12,744,800
1985......................	214,569,300	12,615,700
1936 estimate............	218,708,000	11,758,000

1/ Includes nonmedical CDR's (e.g., substantial gainful activity reviews initiated based on earnings postings or beneficiaries' report of return to work).

In addition, during this period SSA has made an effort to improve administration of the OASI, DI and SSI programs. Some of the major accomplishments are as follows:

1. Implemented New Legislation

Major new legislation implemented by SSA during this period is as follows:

a. Disability Benefits Reform Act of 1984 (P.L. 98-460). Major provisions include:

--Requirement that regulations be issued that define the medical improvement standard under which a person's benefits may be terminated on the basis that the person is no longer disabled.

--Requirement that SSA identify certain litigants who have disability claims pending; offer to reinstate benefits to those who request it; and reprocess the continuing disability reviews.

--Review all unfavorable initial and continuing disability determinations made since March 1, 1981 in mental impairment cases, if the individual reapplies for benefits within 1 year of enactment (October 9, 1984).

--Extend until June 1988 a provision which permits disability beneficiaries to elect to have benefits and Medicare coverage continued through the administrative law judge (ALJ) hearing in cases where continuing disability reviews find beneficiaries are no longer disabled according to the law.

--Reinstatement of SSA's accounting procedures for representative payment, requiring all payees, except parent and spouse payees with custody, to account for the use of the funds received, on an annual basis; and requiring parents and spouses to periodically verify continuing custody. (NOTE: SSA is complying with the Jordan court decision, which requires all payees to account annually.)

b. Deficit Reduction Act of 1984 (P.L. 98-369). Major provisions affecting SSA include:

--Requirement that the Internal Revenue Service (IRS) make data on unearned income available to SSA; this permits the establishment of an SSI/IRS interface which may reveal the ownership of bank accounts by SSI recipients.

--Mandatory assignment of rights to medical support and third party payments by Medicaid recipients. SSA, as the agent of the Health Care Financing Administration, will obtain the information and explain the assignment provision to SSI applicants in some States where eligibility for SSI benefits also determines Medicaid eligibility.

--Limitation on the rate at which SSI overpayments generally may be recovered from a recipient's monthly SSI benefit.

--Requirement that SSA implement procedures to avoid Social Security overpayments which result from an individual's failure to file a correct annual report or estimate of earnings.

c. Social Security Amendments of 1983 (P.L. 98-21). Major provisions with administrative impact include:

--Increases in the Social Security tax rate, and delay by 6 months in the annual cost-of-living adjustments for Social Security and SSI benefits.

--Expansion of Social Security coverage to include all new Federal employees and employees of nonprofit organizations (effective January 1984).

--Taxation of Social Security benefits for higher income persons, and, beginning in January 1985, issuance of annual statements to all beneficiaries of amounts received.

--Increase in the Federal SSI benefit standard (effective July 1983), and notification of aged Social Security beneficiaries of the availability of SSI.

--Requirement that all new and replacement Social Security cards be issued on bank note paper, so that, to the maximum extent possible, they cannot be counterfeited.

2. Achieved Economies and Improvements in Program Administration (other than those required by legislation):

Early in 1984, the new Acting Commissioner announced the SSA Values and Objectives. The four values form the foundation for all activities performed in SSA. They are:

--provide timely and accurate payment of benefits,
--administer the program efficiently and effectively,
--provide courteous, sensitive and dignified service to the public, and
--strive toward a positive work climate for all employees.

SSA implemented a project management approach to improve program administration through specific initiatives. Initiatives and the progress made on each are:

a. Effectively Manage Workloads--In early 1984, significant new workloads arose from passage of the 1983 Social Security Amendments. A number of workload management initiatives were identified in order to develop creative approaches for saving workyears, eliminate unnecessary work, simplify work that must be done, and transfer work to locations where resources could be made available. Workload management initiatives led to savings of 1,178 workyears in FY 1985; and we expect additional savings of 575 workyears in FY 1986 and 292 workyears in FY 1987, for a total of more than 2,000 workyears saved by the end of FY 1987. Some of the key initiatives are:

o Implementation of a change in the method of profiling SSI redeterminations which should more accurately target cases prone to error, thereby saving workyears while identifying the same amount of incorrect payments as the prior, more costly profiling methodology.

- o Elimination of unproductive reviews in the processing centers and field offices.
- o Improved automation rate for AERO (Automated Earnings Reappraisal Operation) which recalculates benefit amounts using the latest posted earnings.
- o Simplification of development and documentation procedures in the RSI and SSI programs.

b. Modernize the Claims System--Phase I of the modernized claims system reached a significant milestone in FY 1985 when the two pilot district offices in York, Pennsylvania and Baltimore, Maryland took their first "live" claims. During FY 1986, an additional 18 pilot offices will begin testing the software, with national implementation beginning late in FY 1986.

c. Streamline Agency Management and Administration--Major systems projects were reviewed in FY 1984 and FY 1985 to assess the impact of systems improvements on SSA's personnel and organization, and we are developing appropriate plans for addressing the effects of automation.

d. Produce a Reliable Management Information System--The Administrative/Management Information Engineering (AMIE) Systems Modernization Plan outlines a 6-year effort to upgrade and integrate SSA's management information systems through improvements in information management, software engineering, systems capacity, data communications and end-user computing. AMIE was added to the SMP in FY 1985, and the FY 1987 budget includes $44.8 million in FY 1986 and $15.6 million in FY 1987 for related hardware, software, supplies and contractual services.

e. Improve Annual Wage Reporting (AWR)--In FY 1985 we processed nearly 67 million magnetic media wage items. We continue to encourage employers to report W-2 information on magnetic media rather than on paper W-2's. In FY 1985 we signed up 1,500 employers who will be reporting 6 million magnetic media wage items, and regulations requiring magnetic media wage reporting will further enhance this effort. In addition, we have significantly improved the quality and timeliness of the AWR process in recent years.

f. Improve Programmatic Issuances--This project has produced short-term improvements in SSA's program instructions and has laid the groundwork for near- and long-term enhancements. The emphasis has been on changes to the Program Operations Manual System (POMS--internal SSA instructions for processing work), in order to reduce the volume of material produced, expedite its printing and distribution, and improve the quality and usability of issuances. In FY 1985 a 2-year test of POMS online access techniques began in the Dallas Region. This test will provide valuable information for use in developing requirements for an online system for instructions.

g. Effectively Manage a National Disability Program--Recent activities have focused on implementation of the Disability Benefits Reform Act of 1984, and resumption of the continuing disability review (CDR) process. Key regulations, regarding revised criteria for evaluating mental impairment cases and the new medical improvement standard for evaluating continuing eligibility for disability benefits, were developed in cooperation with a wide range of health professionals, and published. These and other changes will ensure administration of a fair, compassionate and nationally uniform disability program.

h. Issue Clear Notices--The aim of this project is to provide more effective, timely communication with beneficiaries and an improved understanding of SSA programs by the public. In FY 1985 SSA Notice Standards were published and distributed throughout the Agency. Development of all future notices will comply with these standards, which are based on industry standards on typography, readability and format. Other accomplishments include:

- o Redesign and revision of all notice language for initial claims under the modernized claim system;
- o Improvements to the quality and accuracy of manually prepared notices in the field offices and processing centers; and
- o Development of training proposals for notice writers.

For FY 1986 two initiatives have been added:

a. Provide Comprehensive Case Control--Case control systems are used to identify the location of a case and to provide information on the significant events in the movement of a case while aggregating data on all cases being processed by SSA. Currently there are a variety of automated case control systems in use or under development in SSA. We will be developing a coordinated approach to agency-wide case control.

b. Provide the Public with Improved Earnings and Benefit Information--We will review current policies and procedures regarding the provision of earnings and benefit information to the public, to assure that they are responsive to individuals' needs for information about their recorded earnings and potential future benefits. We also will examine the feasibility, costs and effects of providing annual statements of recorded earnings and estimates of potential future benefits to all wage earners.

In addition, SSA has accomplished other activities in support of SSA's values, such as:

--Continued progress in the Systems Modernization Plan to overhaul SSA's computer system and move it to a state-of-the-art system capable of providing all services which are required by law and necessary to serve the public. Significant progress has been made towards upgrading SSA's telecommunications system, improving software, moving to direct access data storage, obtaining needed hardware, and improving beneficiary services.

Some specific systems achievements from FY 1985 are:

- o Implemented the Payment History Update System (PHUS) to provide end-of-year benefit statements for each beneficiary as required by the taxation of benefits provision of the Social Security Amendments of 1983. PHUS achieved a 99.5 percent automation rate and a 99.9 percent accuracy rate.

- o Implemented pilot testing of the Claims Modernization Project/Field Office Systems Enhancement in two offices. This is a significant milestone in nationwide implementation of the modernized claims system.

- o Completed adjustment of benefit payment amounts to include 1982 earnings, and made adjustments for 1983 earnings with improvements in timeliness and degree of automation. The adjustment for 1983 earnings was completed 5 months earlier than it had been for 1982 earnings, which means that beneficiaries received increases in their checks 5 months earlier.

--Implemented an action plan to prevent, identify and collect outstanding beneficiary overpayments, with full consideration given to the due process rights of beneficiaries. The effects of this plan are evident in the levels of collections achieved in FY 1982 through FY 1985 ($971 million, $1,326 million, $1,218.9 million, $1,268.4 million in FY 1982, FY 1983, FY 1984, FY 1985 respectively; all benefit programs) as compared to collections for FY 1981 ($635 million). In addition, SSA implemented in FY 1984 a special initiative to prevent earnings-related overpayments. SSA also completed consolidation and automation of billing, follow-up, and remittance operations, which reduce administrative costs.

--Improved processing times, such as:

- o Speeded up the issuance of Social Security account numbers so that average time elapsed from application to receipt of a card is 11 days instead of 6 weeks.

- o Reduced mean processing time for claims from the quarter ending September 1984 to the quarter ending September 1985 as follows:

  --RSI claims from 23.4 days to 21.4 days.
  --DI claims from 70.7 days to 66.0 days.
  --SSI aged claims from 16.3 days to 10.8 days.
  --SSI blind and disabled claims from 71.4 days to 57.9 days.

- o Processed the bulk of the 130 million 1983 annual wage reports 6 weeks quicker than the prior year's processing time; and processed most of the 190 million 1984 reports 2 months earlier than that.

- o Decreased the time required to effectuate court orders, from an average of 179.7 days for cases pending in April of 1985, to 99 days for orders issued since then.

Manpower Analysis

The House Appropriations Committee, in its report on the FY 1986 appropriations bill for the Department of Health and Human Services (page 98 of Report No. 99-289, dated September 26, 1985), requested an analysis of the manpower needs of the Social Security Administration. In this section of the budget document we will respond to that request. Since SSA has a workload-driven administrative budget, we relate workloads, which establish workyear needs, to employment. First, we will cover actual experience in FY 1985, and then explain the basis for our projections of the relationship between the work to be done and the workyears requested to do this work in FY 1986 and FY 1987.

FY 1985 Experience

The following tables compare SSA's experience in FY 1984 and FY 1985 with regard to beneficiaries, and selected workloads, pending levels, and processing times.

Beneficiaries in Payment Status

	FY 1984	FY 1985	Percent Change
OASI	32,303,000	32,740,000	+1.4%
DI	3,813,000	3,830,000	+.5%
SSI	3,923,000	4,065,000	+3.6%

Processed Workloads

	FY 1984	FY 1985	Percent Change
OASI claims	3,092,100	3,228,800	+4.4%
DI claims	1,268,500	1,243,300	-2.0%
SSI claims	1,228,300	1,229,000	+.1%
Total	5,588,900	5,701,100	+2.0%
Appeal actions	1,167,200	1,090,800	-6.6%
Representative payee activity	3,081,300	3,814,200	+23.8%
SSI redeterminations	3,123,700	2,572,400	-17.6%
Annual earnings items	193,653,200	214,569,300	+10.8%

Workloads Pending--End of Fiscal Year

	FY 1984	FY 1985	Percent Change
Field Offices			
OASI claims.................	151,400	155,400	+2.6%
DI claims...................	260,000	233,400	-10.2%
SSI aged claims.............	12,500	6,100	-51.2%
SSI blind and disabled claims.....................	169,000	217,500	+28.7%
OASDI and SSI overpayments..	122,400	86,000	-29.7%
Program Service Centers			
OASI claims.................	91,800	85,600	-6.8%
Overpayments................	54,600	30,600	-44.0%
Office of Disability Operations			
DI claims...................	48,500	35,600	-26.6%
Office of Central Records Operations			
Certified wage records for OASI and DI claims..............	85,800	58,400	-31.9%
Office of Hearings and Appeals			
Hearings....................	107,800	107,600	-0.2%

Processing Time--Mean Days; Last Quarter of Fiscal Year

	FY 1984	FY 1985	Percent Change
OASI claims.............	23.4	21.4	-8.5%
DI claims...............	70.7	66.0	-6.6%
SSI aged claims.........	16.3	10.8	-33.7%
SSI blind and disabled claims........	71.4	57.7	-19.2%
Hearings (mean shown for month of September.....	172	154	-10.5%

The preceding tables show that the OASI, DI and SSI beneficiary populations continued to rise in FY 1985 from the FY 1984 level, as did certain workloads (e.g., OASI, SSI claims, representative payee activity), while other workloads declined in FY 1985 (e.g., DI claims and appeals processed). Also the tables show that in FY 1985 SSA reduced significantly the numbers of workloads pending (backlogs) in all of SSA's workload processing components; and, by the September 1985 quarter had improved claims and hearings processing times by at least 6.6 percent and as much as 33.7 percent over the September 1984 quarter. The notable exceptions to this statement are the increases in OASI and SSI blind and disabled claims pending in the field offices, which were due, in part, to an increasing level of receipts during FY 1985. However, the overall mean processing time for claims declined during FY 1985.

Other evidence of improvements in SSA's service to the public which were achieved in FY 1985 follows:

- SSA completed the Automatic Earnings Reappraisal Operation (AERO) for 1982 and 1983 earnings, which adjusts benefit payment amounts for recent earnings, and continued to make major advances in improving the timeliness and degree of automation. The 1983 AERO was completed 5 months earlier than prior AERO's which means that beneficiaries were able to receive increases in their checks 5 months earlier.

- SSA processed the bulk of the 190 million 1984 annual wage reports 2 months earlier than the prior year's processing time.

- We decreased the time required to effectuate court orders from 179.7 days on the average in April 1985 to 99 days. Also we processed 90 percent of new court cases within 42 days, with an average processing time of 31 days. In FY 1984, less than 20 percent of the cases were processed within 42 days, and the average processing time was 60 days.

- We modified the underpayment review process to accelerate processing of these cases and improve payment quality.

A report issued by the General Accounting Office (GAO) in January 1986 offers corroborating evidence that SSA is providing good service in spite of employment reductions. The report shows that the quality of SSA's service to the public was generally rated as high by the public we serve. This conclusion was based on a nationwide survey of 1,680 SSA clients in November and December 1984. They were asked to comment on their recent contacts with SSA by telephone, visit or correspondence, with regard to such issues as courtesy, waiting times, privacy and clarity of explanations. The survey found that overall, in spite of the increasingly complex programs which SSA administers, 87 percent of those surveyed found SSA service to be good to very good, and more than 50 percent rated SSA's service better than that received from other government agencies. In addition to SSA's objective measures such as accuracy and processing time, the public's perception of the quality of our service is an important indicator of how well we are doing our job.

Nevertheless, SSA management is concerned about improving the accuracy of information provided the public by SSA employees, and we will take steps to improve its accuracy. This is less a matter of manpower than of training.

SSA was able to process its workloads in FY 1985, reduce pendings and processing times, and improve service to the public with fewer workyears, primarily through management initiatives to improve work processes and increase automation. SSA achieved a 2.3 percent increase in productivity in FY 1985, which is consistent with the Agency's performance over time. During the 10-year period FY 1976 - FY 1985, SSA achieved a 30 percent increase in productivity, or an average of 3 percent per year.

SSA's productivity improvements resulted primarily from efforts to increase Agency efficiency through automation and through procedural changes designed to streamline or simplify the manner in which work is handled by SSA employees. Some examples of these initiatives and the workyears saved in FY 1985 (from the 1984 base) are:

Initiatives	FY 1985/FY 1984 Workyear Savings
1. Projects under the Commissioner's Workload Management Initiative,............. including:	-1,178
o Improving the automation rate for AERO (Automatic Earnings Reappraisal Operation) which recalculates benefit amounts using the latest posted earnings	
o Changes in the SSI redetermination selection process to target resources on areas of highest vulnerability	
o Simplified documentation practices in the OASDI and SSI programs	
2. Increase in the amount of annual wage reports received on magnetic media.....................	-115
3. Replacement of card readers with scanning devices for case control and folder location in the Office of Central Operations...	-130
4. Improvements to the Claims Automated Processing System (CAPS) to include cases formerly excluded from automated processing.........................	-76

Initiatives	FY 1985/FY 1984 Workyear Savings
5. Net, other management, procedural and systems changes..........................	-37
Total Savings, FY 1985/FY 1984...	-1,536

In addition, because of two major areas where workloads were less than budgeted in FY 1985, SSA was able to reduce significantly its level of overtime. The table below shows actual Limitation on Administrative Expenses (LAE) overtime worked by SSA in FY 1984 and FY 1985 and the budgeted level for FY 1985:

	FY 1984	FY 1985		
	Actual	Operating Budget Estimate	Actual	Difference
Overtime Workyears.......	3,990	3,732	2,317	-1,415
Percent of total workyears...............	4.7%	4.5%	2.8%	-1.7%

The major reasons for the decrease in overtime were:

- o Budgeted inquiries related to the first year of implementation of the taxation of benefits provision of the Social Security Amendments of 1983 did not materialize as expected. The budget included 1,649 workyears for implementation of taxation of benefits; SSA expended 618 workyears on this initiative in FY 1985.
- o The FY 1985 budget assumed that the moratorium on continuing disability reviews (CDR's) would be lifted on April 1, 1985. This did not occur until after the final regulations on the new medical improvement standard were published in December 1985. Thus the 216,000 budgeted CDR's were not processed in FY 1985.

The following table shows changes in SSA's employment, full-time equivalents (FTE's) and workyears in FY 1985 from the FY 1984 level:

	FY 1984	FY 1985	Change
Limitation on Administrative Expenses (LAE) Account			
FTE's..............................	79,951	77,741	-2,210
Total workyears...................	86,189	82,131	-4,058
Full-time permanent (FTP) employment, end of fiscal year...........................	72,490	71,048	-1,442

Even though SSA's employment, FTE's and workyears declined in FY 1985 from the FY 1984 levels, SSA had sufficient manpower resources to meet its needs. With fewer employees and less overtime in FY 1985, SSA served growing beneficiary populations and processed increasing workloads in some categories, while at the same time reducing pending workloads and improving processing times.

Budget Plan for FY 1986 and FY 1987

SSA's estimates of its workyear requirements for FY 1986 and FY 1987 are built upon the agency's experience in FY 1985. Given this "base year" experience, which covers numerous SSA workloads and the time it takes to process each unit of work, projections of future workyear needs take into account how this experience will change in terms of:

--The volume of work the Agency will have to process.

--Various factors which will affect the time it takes to process its work, including plans to automate and streamline operations and including anticipated changes in the workload/employment balance.

--Manpower for functions not directly associated with but needed to support "on the line" workload processing.

The derivation of SSA's overall LAE workyear estimates for FY 1986 and FY 1987 is summarized in the following table. As indicated, SSA's revised budget estimates for FY 1986 reflect a bottom-line reduction of 1,575 workyears needed to live within the constraints established by the Balanced Budget and Emergency Deficit Control Act of 1985, more commonly known as Gramm-Rudman-Hollings.

It should be noted that the total workyear requirements for FY 1986--80,558 workyears--are based on the latest beneficiary and workload projections developed by SSA's actuaries and statisticians. This estimate of requirements is nearly 670 workyears below the level projected in the FY 1986 President's budget. Some of the factors that account for this decrease are a reduction in workyears required for administering the new taxation of benefits provision of the Social Security Amendments of 1983, and a one-quarter delay in the resumption of continuing disability review processing.

In addition, reductions under Gramm-Rudman-Hollings will be achieved, in part, by reducing 1,575 workyears of overtime and nonceiling employment, not by reducing FTE's.

	SSA Workyears	
	FY 1986	FY 1987
Prior Year Requirements	82,131	80,588
Changes:		
Workload Volumes	+2,946	+1,307
Automation and Streamlining	-2,206	-2,046
Workload/Employment Balance	-966	-1,315
Operations Support Functions	-1,317	+46
Total Requirements	80,588	78,580
Gramm-Rudman-Hollings Reductions	-1,575	--
Budget Estimates	79,013	78,580

Beneficiary and workload projections developed by SSA's actuaries and statisticians are the key indicators which influence the amount of work SSA can expect. Based on actuarial and statistical projections, SSA has developed estimates of the workloads it expects to process in FY 1986 and FY 1987. Comparisons of those estimates to FY 1985 actual experience for beneficiaries in current payment status and for SSA's major processed workloads are provided below:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
Beneficiaries in Payment Status			
OASI	32,740,000	33,323,000	33,980,000
DI	3,830,000	3,927,000	3,974,000
SSI	4,065,000	4,153,000	4,264,000
Processed Workloads			
OASI Claims	3,228,840	3,294,100	3,336,900
DI Claims	1,243,300	1,313,300	1,404,200
SSI Claims	1,229,000	1,380,100	1,396,000
Rereviewed Claims	--	185,000	--
Total	5,701,100	6,172,500	6,137,100
Appeal Actions	1,090,800	1,168,930	1,241,130
Representative Payee Activity	3,814,200	4,019,600	4,593,100
SSI Redeterminations	2,572,400	2,555,600	2,659,200
Annual Earning Items	214,569,300	218,708,000	225,379,000

The above workload estimates reflect the following trends and initiatives:

-- Normal year-to-year growth in beneficiaries and in claims, due to demographic factors.

-- Resumption of CDR processing in the second quarter of FY 1986, following a moratorium in effect since April 1984.

-- Hearing workloads which reflect CDR resumption. Hearings occur at the tail end of the appellate process and are now expected to increase through FY 1986 and FY 1987.

-- An increase in representative payee accounting due to implementation of the Jordan court decision which calls for annual accounting for all payees.

In comparison to FY 1985, there is an aggregate increase in the volume of work SSA anticipates, which amounts to 3.6 percent in FY 1986 and 1.6 percent in FY 1987. These increases are the net effect of many pluses and minuses which take into consideration:

-- The workload count changes reflected in the table above.

-- Changes which may occur in the internal composition of a particular workload. For example, while both workers and dependents are included in RSI claims counts, dependent claims take less time.

-- The fact that certain workloads, such as RSI claims, are less time consuming than others, such as disability claims.

In the absence of any other changes, the aggregate increase in workload volumes increases SSA resource requirements by 2,946 workyears in FY 1986 and by another 1,307 workyears in FY 1987. As indicated earlier, however, SSA's analysis of its FY 1986 - FY 1987 workyear requirements takes into account other factors which affect the Agency's workyear needs:

-- Anticipated changes related to management, procedural and systems improvements (i.e., automation and streamlining), discussed in more detail later, reduce SSA needs by 2,206 workyears in FY 1986 and by another 2,046 workyears in FY 1987.

-- Anticipated improvements in the balance between the amount of work on hand and the number of employees in place to process this work decrease resource requirements by 966 workyears in FY 1986 and by 1,315 workyears in FY 1987. Unlike the above factors which are related to specific plans, this change is related to experience in FY 1984 and in FY 1985, when the workload/employment balance fell below budgeted levels, mainly because work did not materialize as a result of the moratorium on CDR processing even though SSA had in place the complement of employees needed to handle this workload. Now that CDR processing has resumed, SSA expects the balance between workloads and employment to return to normal levels during FY 1986 and FY 1987, thus reducing workyear requirements in comparison to FY 1985.

-- Changes in workyear requirements for functions such as case control and filing, training and supervision (i.e., operation support functions) occur as a natural by-product of reductions in the workyears actually needed "on the line" to process SSA workloads. In addition, SSA plans to improve the ratio between workyears for these functions and for direct processing functions. This results in a reduction of 1,317 workyears in FY 1986, which carries virtually unchanged into FY 1987.

As indicated above, SSA estimates that savings of 2,206 workyears in FY 1986 over FY 1985 and 2,046 workyears in FY 1987 over FY 1986 will result from management, procedural and systems improvements. Major initiatives for FY 1986 and FY 1987 are listed below:

	Workyear Savings	
	FY 1986/FY 1985 Savings	FY 1987/FY 1986 Additional Savings
1. Projects in the Commissioner's Workload Management Initiative, including:	-575	-292
o Elimination or modification of unproductive alerts and diaries in the field offices and program service centers		
o Mid-year follow-up with working beneficiaries for reestimate of annual earnings to prevent overpayments.		
o Processing all OASI overpayment waiver requests in the field offices, based on information in the Payment History Update System and the Master Beneficiary Record, instead of sending them to the processing centers for a folder review.		
2. Field Office Systems Enhancement--development of an automated title II claims taking process, which will include immediate data entry and edit and system generation of application documents	(70)	-439
3. Expansion of district office final authorization (DOFA) of initial claims to include cases currently referred to the program service centers for final authorization	-0-	-329
4. Increase in the amount of annual wage reports received on magnetic media	-135	-67

	Workyear Savings	
	FY 1986/FY 1985 Savings	FY 1987/FY 1986 Additional Savings
5. Improvements and modifications to the claims automated processing system (CAPS) to include cases formerly excluded from automated processing (e.g., ALJ reversals)......................	-226	-24
6. Third party query system--automation of the procedure used by field offices to furnish benefit payment information to State welfare agencies........................	-261	-0-
7. Automated process to offset the initial retroactive title II benefit for periods in which the claimant received SSI benefits...........	-137	-146
8. Change-of-address processing modifications which will eliminate most of the RSDI and SSI nonreceipt-of-check workload caused by recent changes in address..............	-0-	-164
9. New short-form SSI redetermination questionnaire for field office use--form will be mailed or will result in less time-consuming interviews..	-308	-0-
10. FTE reductions from streamlining staff functions.................	-184	-420
11. Net, miscellaneous additional improvements....................	-450	-165
Total Workyears Saved.....	-2,206	-2,046

Mix of SSA Workyears in FY 1986 and FY 1987

SSA will continue to rely on a mix of FTE's, nonceiling employment and overtime to achieve its overall workyear needs. The following table, which includes bottom-line FY 1986 Gramm-Rudman-Hollings reductions, shows how SSA plans to achieve its workyear needs for the LAE account in FY 1986 and FY 1987. These plans are compared to FY 1985 actual experience.

	LAE Workyears		
	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
FTE's	77,741	76,169	73,270
Nonceiling	2,073	1,069	1,786
Overtime	2,317	1,775	3,524
Total	82,131	79,013	78,580
Overtime as percent of total workyears	2.8%	2.3%	4.5%

Consistent with the reduction in overall workyear requirements, SSA's plans reflect a continued decrease in FTE's in FY 1986 and FY 1987. We do not expect that a deterioration in SSA's service will occur with the level of FTE's currently estimated. SSA will be reporting quarterly to the Congress on a number of key indicators of public service, such as payment accuracy and regional and national processing times for key workloads. Over time, these reports will make it possible to objectively determine whether any decline in service takes place.

Overtime and nonceiling (principally summer youth employment) workyears have been reduced in FY 1986 as a result of reductions in available funds due to Gramm-Rudman-Hollings. These reductions will not require reductions-in-force or furlough of Federal employees.

SSA's budget plan for FY 1987, which was developed before Gramm-Rudman-Hollings reductions were mandated in FY 1986, restores nonceiling and overtime workyears to higher levels. As in FY 1985, if workloads fail to materialize as budgeted, SSA will reduce the level of overtime worked.

Limitation on Administrative Expenses

Old-age and survivors insurance program

Authorizing Legislation: Section 201(g)(1) of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority.........	$1,215,979,000	$1,229,786,000	+$13,807,000
(Obligations)............	($1,257,846,000)	($1,281,498,000)	(+$23,652,000)
Full-time equivalents....	31,596	30,265	-1,331
Workyears................	32,853	32,493	-360

Purpose and Method of Operation

Funds requested for the administration of the old-age and survivors insurance (OASI) program provide for:

1. the initial determination of eligibility of workers, wives, widows, children and dependent parents for old-age and survivors insurance benefits;

2. reevaluation of the initial determination when requested by the claimant;

3. processing current changes to the beneficiary rolls to assure proper payment of benefits;

4. review of beneficiaries' continuing eligibility for benefits, including evaluation of the performance of representative payees;

5. preparation of annual statements for beneficiaries, and reports to the Treasury Department of amounts of Social Security benefits paid annually as required by the taxation of benefits provision of Public Law 98-21.

6. activities required under the Employee Retirement Income Security Act of 1974 (Pension Reform Act), primarily annotating earnings histories of employees with vested pension rights and notifying employees or their survivors regarding vested pension rights. These functions are chargeable by law ultimately to Federal funds. Thus the Federal Old-Age and Survivors Insurance trust fund advances the administrative expenses as needed, and is subsequently reimbursed for these costs, including interest, if appropriate, via the Payments to Social Security Trust Funds appropriation.

In addition, the old-age and survivors insurance activity, along with the disability and health insurance activities, includes a share of the following functions which support all Social Security programs:

--the issuance of Social Security numbers;

--the maintenance of earnings records for workers covered by the Social Security programs;

--the overall direction of the Social Security Administration; and

--administrative services.

Rationale for the Budget Request

The FY 1987 request for this activity finances workload processing (initial enrollment, appellate decisions, maintenance of the beneficiary rolls and continuing eligibility reviews) and other functions of the OASI program.

I. Workloads and Planned Improvements

A. Workload Trends

The number of beneficiaries receiving payments is an indicator of the general workload trend in this activity. The table below shows the average number of persons receiving benefits and the amount of benefits paid in recent years.

Fiscal Year	Average Number of Beneficiaries in Current Payment Status	Benefits Paid Under Current Law
1983...............	31,908,000	$148,312,189,000
1984...............	32,303,000	$155,845,605,000
1985...............	32,740,000	$165,422,000,000
1986 estimate......	33,323,000	$175,308,000,000
1987 estimate......	33,980,000	$186,637,000,000

The normal year-to-year growth in beneficiaries and in the amount of benefits paid is in large measure dependent on population and economic growth and demographic changes. The benefits paid each year increase as the number of beneficiaries increases. In addition, average monthly benefits increase as general earnings rise and annual automatic cost-of-living benefit increases, authorized by law, go into effect. The estimated benefit amounts for FY 1986 and FY 1987 include the 3.1 percent automatic increase which was effective January 1986 and assume a 3.7 percent increase effective January 1987.

The principal workloads included in this activity are shown below:

	1986 Current Estimate	1987 Estimate	Change	
			Volume	Percent
Processed claims for retirement and survivors insurance benefits......	3,294,100	3,336,900	+42,800	+1.3%
Appellate actions processed (reconsiderations, hearings and appeals)............	46,230	46,130	-100	-.2%
Continuing eligibility reviews (e.g., annual reports of earnings, accountings by representative payees).................	4,326,000	4,683,100	+357,100	+8.3%
Maintenance of the rolls (e.g. processing changes of address or status, benefit recomputations, recovery of overpayments and actions related to payments and nonreceipt of checks).................	49,611,900	50,345,700	+733,800	+1.5%

B. Recent Accomplishments

Recent accomplishments are due to management initiatives, some of which are addressed in the general statement for this account. These include:

--maintaining closer contact with working beneficiaries so that their benefits can be adjusted before overpayments occur;

--automation of the procedure used by field offices to provide benefit payment information to State welfare agencies;

--elimination of unproductive reviews and alerts; and,

--streamlining the earnings enforcement operation which compares beneficiary-reported earnings to earnings posted on the earnings record.

C. Planned Improvements

Planned improvements result from management actions, some of which are addressed in the general statement for this account. These include:

--continuing the modernization and expansion of automated systems to improve the claims process and management information;

--moving the decision level for overpayment waiver requests to the district office level, thus making the process more timely and efficient;

--improvements in processing change-of-address actions which will eliminate many problems with nonreceipt of checks for beneficiaries who have moved;

--issuing clear notices which provide more effective timely communication with beneficiaries and an improved understanding of SSA programs by the general public; and

--moving the final decision level on more claims to the district office level, which will improve processing times and save workyears.

II. Workyears

Workyears budgeted for the OASI program decrease from 32,853 workyears in FY 1986 to 32,493 workyears in FY 1987. The decrease of 360 workyears is projected to result primarily from management actions, systems improvements and procedural changes as addressed in the summary of changes exhibit and general statement for this account.

III. Administrative Expenses

	1986 Current Estimate	1987 Estimate	Increase
Obligations........	$1,257,846,000	$1,281,498,000	$+23,652,000

Total administrative costs of the Social Security Administration are allocated to each activity based upon standard cost accounting principles, and are consistent with the workloads and workyears associated with administering each program. The year-to-year increase of $23,652,000 in obligations is the net effect of this activity's share of the increases and decreases explained in the summary of changes exhibit for this account.

Limitation on Administrative Expenses

Disability insurance program

Authorizing Legislation: Section 201(g)(1) of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority..........	$1,331,533,000	$1,416,577,000	+$85,044,000
(Obligations).............	($1,356,322,000)	($1,448,247,000)	(+$91,925,000)
Full-time equivalents.....	21,008	20,748	-260
Workyears.................	21,553	22,051	+498

Purpose and Method of Operation

Funds requested for the administration of the disability insurance (DI) program provide for:

1. the initial determination of eligibility of disabled workers and their dependents for disability insurance benefits;
2. reevaluation of the initial determination or of a decision to terminate payment, when requested by the claimant;
3. processing current changes to the beneficiary rolls to assure proper payment of benefits;
4. review of beneficiaries' continuing eligibility for benefits, including evaluation of the performance of representative payees; and
5. preparation of annual statements for beneficiaries, and reports to the Treasury Department of amounts of Social Security benefits paid annually as required by the taxation of benefits provision of Public Law 98-21.

In addition, the DI activity, along with the old-age and survivors and health insurance activities, includes a distributive share of the following functions which support all Social Security programs:

-- the issuance of Social Security numbers;

-- the maintenance of earnings records for workers covered by the Social Security programs;

-- the overall direction of the Social Security Administration; and

-- administrative services.

Rationale for the Budget Request

The FY 1987 budget request for this activity finances workload processing (initial enrollment, appellate decisions, maintenance of the beneficiary rolls and continuing eligibility reviews) and other functions of the DI program.

I. Beneficiary Population and Benefit Payment Trends

The number of beneficiaries receiving payments is an indicator of the general workload trend in this activity. The table below shows the average number of persons receiving benefits and the amount of benefits paid in recent years.

Fiscal Year	Average Number of Beneficiaries in Current Payment Status	Benefits Paid Under Current Law
1983..............	3,917,000	$17,588,086,000
1984..............	3,813,000	$17,735,324,000
1985..............	3,830,000	$18,654,459,000
1986 estimate.....	3,927,000	$19,573,000,000
1987 estimate.....	3,974,000	$20,181,000,000

II. Workloads Processed by SSA

The table below summarizes key workloads which SSA expects to process during FY 1986 and FY 1987.

	1986 Current Estimate	1987 Estimate	Increase or Decrease	
			Volume	Percent
Processed claims from disabled workers and their dependents.............	1,433,300	1,404,200	-29,100	-2.0%
Appellate actions processed:				
Reconsiderations......	390,300	382,400	-7,900	-2.0%
Hearings..............	189,000	226,000	+37,000	+19.6%
Appeals...............	71,000	82,500	+11,500	+16.2%
Continuing eligibility reviews (includes representative payees, beneficiaries whose continued disability is verified periodically, and beneficiaries who are working)...........	1,891,500	2,189,200	+297,700	+15.7%

	1986 Current Estimate	1987 Estimate	Increase	
			Volume	Percent
Maintenance of the rolls (includes processing changes of address or status, benefit recomputations, recovery of overpayments and actions related to payments and nonreceipt of checks).............	6,830,200	6,887,500	+57,300	+0.8%

Processed claims decrease in FY 1987 due to completion of a one-time mental impairment re-review workload in FY 1986. The FY 1986 continuing eligibility workload estimates reflect processing of continuing disability reviews (CDR's) effective January 1986. The increase in continuing eligibility workloads and appellate actions in FY 1987 is due to the effect of processing CDR's for the full year. The increase in maintenance of the rolls activity is related to the increase in the average number of beneficiaries in current payment status.

III. Workloads Processed by Disability State Agencies

In addition to the work processed directly by SSA, a considerable amount of work under this program is processed by Disability State Agencies which make determinations of disability associated with new claims, appellate cases and reviews of continuing eligibility as agents of SSA. The number of disability determinations to be processed by the Disability State Agencies in FY 1986 and FY 1987 is shown in the table below.

	1986 Current Estimate	1987 Estimate	Increase	
			Volume	Percent
Disability determinations processed by Disability State Agencies (new awards, appeals and continuing eligibility)..	2,007,700	2,059,300	+51,600	+2.6%

The FY 1986 estimate reflects resumption of processing CDR's effective January 1986. The FY 1987 net increase results from processing CDR's for the full year, partially offset by a decrease for completion of a one-time mental impairment re-review workload in FY 1986.

IV. Workyears

Federal workyears budgeted for the DI program increase from 21,553 workyears in FY 1986 to 22,051 workyears in FY 1987. The increase of 498 workyears relates to the increase in workloads resulting primarily from resumption of processing CDR's for the full year.

V. Administrative Expenses

	1986 Current Estimate	1987 Estimate	Increase
SSA Federal............	$ 877,004,300	$ 945,408,500	+$68,404,200
Disability State Agencies..............	479,317,700	502,838,500	+ 23,520,800
Total obligations...	$1,356,322,000	$1,448,247,000	+$91,925,000

Total administrative costs of the Social Security Administration are allocated to each activity based upon standard cost accounting principles, and are consistent with the workloads and workyears associated with administering each program. The year-to-year increase of $68,404,200 in obligations for SSA Federal is the net effect of this activity's share of the increases and decreases explained in the summary of changes exhibit for this account.

Disability State Agency requirements for FY 1987 are expected to increase by $23,520,800. This increase is largely associated with processing CDR's and resultant appellate actions for a full year in FY 1987. The total Disability State Agency budget request, which covers State agency costs associated with both this activity and the supplemental security income activity, is addressed in the general statement portion of this justification.

Limitation on Administrative Expenses

Health insurance program

Authorizing Legislation: Title XVIII and section 209(g)(1) of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority.........	$126,963,000	$142,331,000	+$15,368,000
(Obligations)...........	($133,015,000)	($148,897,000)	(+$15,882,000)
Full-time equivalents....	3,310	3,322	+12
Workyears................	3,450	3,566	+116

Purpose and Method of Operation

This activity provides resources for the Social Security Administration's support of the Medicare program, which provides health insurance protection to persons age 65 or over; to persons under age 65 who have been entitled for at least 24 months to Social Security or Railroad Retirement benefits because they are disabled; and to workers insured under Social Security and their dependents who have chronic renal disease and receive hemodialysis or renal transplants.

The establishment of the Health Care Financing Administration (HCFA) in March 1977 removed much of the Social Security Administration's responsibility for administration of the Medicare program. Under policies established by HCFA, SSA still has operational responsibility for:

1. enrolling persons in the Medicare program;

2. maintaining individual beneficiary records of eligibility for Medicare;

3. collecting premium payments through check adjustments; and

4. acting as liaison between hospitals, doctors, and other providers, contractors (insurance companies) and the Medicare beneficiaries. In this liaison role, SSA district office employees answer inquiries regarding Medicare coverage, verify claim numbers and assist beneficiaries in completing claims for payment and filing requests for reconsideration, hearing or appeal of decisions on Medicare claims.

This activity, along with the old-age and survivors insurance and disability insurance activities, includes a share of the following functions which support all Social Security programs:

--the issuance of Social Security numbers;

--the maintenance of earnings records for workers covered by the Social Security programs;

--the overall direction of the Social Security Administration; and

--administrative services.

Rationale for the Budget Request

The FY 1987 request for this activity finances workload processing (e.g., initial enrollment, maintenance of the rolls) and other functions of the Medicare program.

I. Workloads

SSA's ongoing Medicare-related workloads are summarized below:

	1986 Current Estimate	1987 Estimate	Increase	
			Volume	Percent
Enrolling persons into Medicare, assisting beneficiaries, responding to inquiries from providers and contractors, etc., for the hospital insurance program..................	2,801,600	2,857,800	+56,200	+2.0%
Assisting beneficiaries and responding to inquiries from providers and contractors for the medical insurance program..................	3,300,400	3,369,400	+69,000	+2.1%

The increase in FY 1987 over FY 1986 reflects anticipated normal growth in the Medicare beneficiary population.

II. Workyears

Workyears budgeted for the health insurance program increase from 3,450 in FY 1986 to 3,566 workyears in FY 1987. The increase of 116 workyears results primarily from a projected increase in workloads related to an increase in the Medicare beneficiary population.

III. Administrative Expenses

	1986 Current Estimate	1987 Estimate	Increase
Obligations.........	$133,015,000	$148,897,000	+$15,882,000
Workyears...........	3,450	3,566	+116

Total administrative costs of the Social Security Administration are allocated to each activity based upon standard cost accounting principles, and are consistent with the workloads and workyears associated with administering each program. Obligations for the health insurance activity are primarily for salaries and related costs associated with 3,450 workyears in FY 1986 and 3,566 workyears in FY 1987. The year-to-year increase of $15,882,000 in obligations is due to this activity's share of the increases and decreases explained in the summary of changes exhibit for this account.

Limitation on Administration Expenses

Supplemental security income program

Authorizing Legislation: Title XVI and section 201(g)(1) of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority...........	$929,678,000	$952,619,000	+$22,941,000
(Obligations)..............	($953,006,000)	($972,118,000)	(+$19,112,000)
Full-time equivalents......	18,005	16,829	-1,176
Workyears..................	18,718	18,240	-478

Purpose and Method of Operation

Funds requested for this activity provide for Federal administration of the supplemental security income (SSI) program for the aged, blind and disabled. This includes Federal administration of State mandatory and optional supplementation payments in States which have entered into agreements with the Secretary of Health and Human Services for this service. The Federal Government is currently administering mandatory supplements for 26 States and the District of Columbia and optional supplements for 17 States.

This activity covers the following work:

1. the initial determination of eligibility of persons age 65 and over, and blind or disabled persons regardless of age;
2. reevaluation of the initial determination of denial or payment termination, when requested by the claimant;
3. maintenance of individual recipients' records to assure proper payments; and
4. review of recipients' continuing eligibility for payments, including periodic redeterminations of eligibility and payment amount.

The Social Security Act authorizes reimbursement to the Social Security trust funds for SSI administrative costs initially incurred by this account. The reimbursement is requested in a separate activity of the supplemental security income program appropriation.

Rationale for the Budget Request

The FY 1987 budget request for this activity finances workload processing (initial enrollment, appellate decisions, maintenance of the beneficiary rolls and continuing eligibility reviews) and other functions of the SSI program.

I. Recipient Population and Benefit Payment Trends

The following table shows the annual trend of the SSI recipient population and benefits paid, over a 5-year period.

Fiscal Year	Recipients at End-of-Year	Benefits Paid During Year
1983...............	3,898,200	$ 9,643,000,000
1984...............	4,023,000	$ 9,138,000,000
1985...............	4,128,000	$10,573,000,000
1986 estimate......	4,216,000	$11,101,000,000
1987 estimate......	4,323,000	$11,619,000,000

Recipients include recipients of Federal payments and federally-administered State supplementation payments. Benefit payments include all Federal payments and those State supplemental payments which are administered by the Federal Government.

II. Workloads Processed by SSA

The table below summarizes the key SSI workloads which SSA expects to process during FY 1986 and FY 1987.

	1986 Current Estimate	1987 Estimate	Increase or Decrease Volume	Increase or Decrease Percent
Processed claims from the aged.......	244,300	241,000	-3,300	-1.4%
Processed claims from the blind or disabled............	1,255,800	1,155,000	-100,800	-8.0%
Redeterminations.....	2,555,600	2,659,200	+103,600	+4.1%
Appellate actions processed:				
Reconsiderations...	286,700	304,900	+18,200	+6.3%
Hearings...........	140,000	148,000	+8,000	+5.7%
Appeals............	45,700	51,200	+5,500	+12.0%
Maintenance of the beneficiary rolls (includes changes of address, status changes, overpayment recovery activity, etc.)......	4,975,800	5,104,300	+128,500	+2.6%

We anticipate a reduction in SSI blind or disabled claims to occur in FY 1987 due to the one-time cost in FY 1986 associated with the rereview of mental impairment cases under new mental impairment regulations. We expect significant increases in the appellate workloads for FY 1987 as a result of the resumption of the continuing disability review process beginning January 1986. The rereview and the lifting of the continuing disability review moratorium result from implementation of provisions of the Disability Benefits Reform Act of 1984 (DBRA) (Public Law 98-460). The number of redeterminations processed in 1987 is estimated to increase over the 1986 level as a result of implementation, during FY 1986, of a computer match between IRS and SSA records. This match, required by Section 2651 of the Deficit Reduction Act of 1984, Public Law 98-369, detects the possibility of excess resources or non-reported unearned income for SSI recipients. A full year's processing of redeterminations undertaken as a result of the computer match is reflected in the 1987 estimate.

III. Workloads Processed by Disability State Agencies

Disability State Agencies make disability determinations on SSA's behalf for the SSI program, just as they do for the disability insurance program. The estimated number of SSI disability determinations to be made by the Disability State Agencies in FY 1986 and FY 1987 is shown in the table below.

	1986 Current Estimate	1987 Estimate	Change	
			Volume	Percent
SSI disability determinations processed (includes determinations associated with new claims, appellate cases and reviews of continuing eligibility)........	1,547,400	1,465,900	-81,500	-5.3%

The FY 1986 estimate includes continuing disability reviews which the States have resumed processing effective January 1986. The FY 1987 net decrease is due to the completion of a one-time mental impairment rereview workload in FY 1986 partially offset by an increase for a full year's processing of continuing disability reviews in FY 1987.

IV. Workyears

Federal workyears budgeted for the SSI program decrease by 478 workyears in FY 1987 from the FY 1986 level, largely due to: (1) the automation and simplification of claims, overpayment and redetermination procedures; and (2) the one-time cost in FY 1986 of rereviewing mental impairment cases as required by DBRA under newly published mental impairment regulations.

V. Administrative Expenses

	1986 Current Estimate	1987 Estimate	Change
SSA Federal...........	$691,280,200	$715,116,500	+$23,836,300
Disability State Agencies.............	261,725,800	257,001,500	- 4,724,300
Total obligations..	$953,006,000	$972,118,000	+$19,112,000

Total administrative costs of the Social Security Administration are allocated to each activity based upon standard cost accounting principles, consistent with the workloads and workyears associated with administering each program. The year-to-year increase of $23,836,300 in obligations for SSA Federal is the net effect of this activity's allocated share of the increases and decreases explained in the summary of changes exhibit for this account.

The decrease of $4,724,300 in estimated FY 1987 Disability State Agency expenses for this activity is largely associated with the completion during FY 1986 of a large one-time workload involving the rereview of mental impairment cases under newly published mental impairment regulations required by the Disability Benefits Reform Act. The total Disability State Agency budget request, which covers State Agency costs associated with both this activity and the disability insurance activity, is addressed in the general statement portion of this justification.

Limitation on Administrative Expenses

Annual reporting of earnings

Authorizing Legislation: Section 201 (g)(1) of the Social Security Act and section 8(f) of P.L. 94-202.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority..................	$73,779,000	$76,145,000	+$2,366,000
(Obligations)......................	($79,939,000)	($81,339,000)	(+$1,400,000)
Full-time equivalents.............	2,250	2,106	-144
Workyears.........................	2,439	2,230	-209

Purpose and Method of Operation

The Social Security Administration is responsible for maintaining lifetime earnings records for persons who pay into the Social Security system. These records are used to:

--properly credit the Social Security trust funds with FICA contributions based on reported earnings;

--record quarters of coverage under Social Security, which are used to establish entitlement for benefits and eligibility for Medicare; and

--determine the amount of benefits payable under the old-age and survivors and disability insurance programs.

P.L. 94-202, enacted January 2, 1976, instituted a single annual wage reporting system. Under this law all employers are now required to report annually. This law gives the Secretaries of Treasury and Health and Human Services authority to use Forms W-2, "Statement of Earnings," and related documents provided annually by employers to employees and to the Internal Revenue Service (IRS) as official reports of wages both for Social Security and income tax purposes.

Under annual reporting, SSA receives earnings data for all workers (regardless of coverage under Social Security), posts the data to SSA records, and provides to IRS information it needs to administer the income tax program.

Although the annual reporting workload is highly seasonal, activities related to maintaining the accuracy and completeness of individual wage records take place throughout the year. The vast majority of the annual reporting wage items submitted to SSA are processed within a 9-month period (January to September) using a large number of temporary and seasonal employees. The compressed schedule for processing these records is based on the receipt of Forms W-2 from employers beginning in January and the need to supply IRS with the wage information it needs on a timely basis.

Rationale for the Budget Request

The resources requested, which will allow SSA to process all of the tax year 1986 reports by the end of FY 1987, are discussed below.

I. Workloads to Be Processed

The workloads for FY 1986 and FY 1987 are summarized in the table below.

Annual Earnings Items Posted	1986 Current Estimate	1987 Estimate
Paper	129,081,000	129,867,000
Magnetic tape	89,627,000	95,512,000
	218,708,000	225,379,000

SSA encourages large employers to submit earnings information on magnetic media in lieu of paper documents. Employers benefit from magnetic media reporting because it allows them to report earnings data without sending a paper Form W-2 to the Government. The Federal Government benefits because use of magnetic media eliminates manual keying and other clerical operations. SSA received about 82 million annual earnings items on magnetic media in FY 1985. We expect to increase this number over the next 2 years, to over 95 million in FY 1987, through continuation of our intensive employer contact initiative.

Although our employer contact initiative is ambitious, our ability to achieve the magnetic media reporting targets should be enhanced by the recently published IRS regulation, which requires employers with 500 or more employees to submit their earnings reports to SSA on magnetic media beginning with tax year 1986 (FY 1987) unless undue hardship would result from the conversion to magnetic media. The regulation extends this magnetic media reporting requirement to employers with 250 or more employees beginning with tax year 1987 (FY 1988).

SSA converts the paper records it receives to magnetic tape by using computerized optical scanning equipment, where possible, or key-to-tape data entry. Upon completion of this process, a magnetic tape is furnished to IRS for use in administering the income tax program; and the earnings information is available for SSA program administration.

As previously discussed in the General Statement section of this justification, SSA also plans to begin reconciling employer wage reporting problems resulting from discrepancies between the annual wage reports submitted to SSA and the quarterly wage reports submitted to IRS.

II. Workyears

The following table summarizes the workyears required for the annual reporting of earnings activity in FY 1986 and FY 1987, and the distribution of these workyears between SSA and IRS work.

	1986 Current Estimate	1987 Estimate	Decrease
SSA work...............	1,120	1,012	-108
IRS work..............	1,319	1,218	-101
Total, workyears...	2,439	2,230	-209

SSA's budget request provides 2,230 workyears for the annual reporting of earnings activity in FY 1987--209 workyears less than the FY 1986 level. The decrease is due primarily to savings from SSA's magnetic media reporting initiative and to continued improvement in operational and administrative efficiency in SSA.

III. Administrative Expenses

The table below summarizes the obligations associated with annual reporting of earnings in FY 1986 and FY 1987, and the distribution of these obligations between SSA and IRS work.

	1986 Current Estimate	1987 Estimate	Increase
SSA work..................	$36,926,000	.$37,087,000	+$161,000
IRS work..................	43,013,000	44,252,000	+1,239,000
Total, obligations....	$79,939,000	$81,339,000	+$1,400,000

Total administrative costs of SSA are allocated to each activity based upon standard cost accounting principles, and consistent with the workloads and workyears associated with the administration of each program. SSA obligations in the annual reporting of earnings activity are primarily for salaries and related costs associated with 2,439 workyears in FY 1986 and 2,230 workyears in FY 1987. The year-to-year change in obligations is an increase of $1,400,000. This change is the net effect of higher average payroll costs, the decrease of 209 workyears, and this activity's allocated share of other agency increases and decreases explained in the summary of changes exhibit for this account.

Funding for this activity ultimately must be shared by the trust funds and general revenues, even though it is funded through the limitation on administrative expenses. As authorized by section 8(f) of P.L. 94-202, the trust funds are reimbursed by offsetting the amounts which Treasury normally draws directly from the trust funds to finance its trust fund-related activities (e.g., collecting FICA taxes and disbursing Social Security benefit checks).

The cost-sharing methodology SSA uses to divide the administrative costs of annual reporting between the trust funds and the general funds has been approved by the Board of Trustees of the Federal old-age and survivors insurance, disability insurance and hospital insurance trust funds. Under this methodology, the cost of work done solely for the benefit of trust fund programs, such as maintaining records of covered earnings under Social Security and records of FICA tax collections, is charged to the trust funds. The cost of work done which benefits both SSA and IRS programs is split equally between the trust funds and the general funds. Work done solely for IRS is charged to general funds.

Limitation on Administrative Expenses

Construction program

Authorizing Legislation: Section 201(g)(1) of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority................	$31,432,000	$33,915,000	+$2,483,000
(Obligations)..................	($34,816,300)	($33,915,000)	(-$901,300)

Purpose and Method of Operation

This activity provides for the construction needs of the Social Security program. In actions on prior appropriations, the Congress has determined that the construction needs of the Social Security Administration (SSA) shall be funded through the Social Security trust fund construction activity rather than through payment of rent to the Federal buildings fund of the General Services Administration (GSA). SSA leases most of its district offices and some headquarters and program service center facilities. The decision on whether to build or lease is based on considerations of economy, efficiency and service to the public. The rental and maintenance costs on leased buildings are budgeted in the other activities of the limitation on administrative expenses (LAE).

Rationale for the Budget Request

No new budget authority is requested for headquarters or district office construction projects since budget authority from prior years is available to meet all planned requirements. New budget authority is requested for annual purchase contract payments on buildings previously constructed under the purchase contract method of financing.

I. Headquarters Construction

	1986 Current Estimate	1987 Estimate	Decrease
Budget authority..........	-0-	-0-	-0-
Obligations...............	$100,000	-0-	-$100,000

FY 1986 obligations shown above are for GSA's estimate of project management costs associated with the settlement of claims that are pending as a result of construction of the National Computer Center at Woodlawn.

When SSA acquired 130 acres of land in Colonial Park Estates (some fully improved parcels) adjacent to the Social Security complex in Woodlawn, Maryland for long-range expansion plans, the Federal Government made a commitment to the original owners to purchase and pay relocation costs (under title II of Public Law 91-646, the Uniform Relocation Assistance Act) on any remaining land in Colonial Park Estates which the owner wishes to sell. This commitment was necessary to deal fairly with property owners affected by SSA's operations or expansion. In total, $3,095,000 has been appropriated in prior years for this purpose, of which $1,027,515 is still available for obligation. Since we do not expect any of the original property owners to exercise their option to sell their property in FY 1986 and FY 1987, no obligations are shown for this purpose.

II. Purchase Contract Payments

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority..........	$31,432,000	$33,915,000	+$2,483,000
Obligations...............	$34,173,000	$33,915,000	-$258,000

SSA has five buildings which were constructed under the purchase contract method of financing authorized by the Public Buildings Amendments of 1972. Under this procedure, private contractors built facilities for Federal Government use; and the Federal Government makes annual payments covering principal, interest and taxes for a period of up to 30 years, after which time the buildings become assets to the Federal Government. The authority to enter into new purchase contract arrangements expired in 1975. SSA purchase contract facilities include:

--Program service center buildings in Chicago, Illinois; Philadelphia, Pennsylvania; and Richmond, California.

--Headquarters buildings in Woodlawn, Maryland (National Computer Center) and in Baltimore City (Metro West Building).

Because under the law GSA was the only agency which could enter into purchase contract agreements, it is responsible for making the actual payments. Each year SSA budgets for these payments based upon estimates provided by GSA.

Obligations for purchase contract payments in FY 1986 will be funded in part from new budget authority appropriated in FY 1986 and in part from previously appropriated purchase contract authority remaining available at the end of FY 1985.

III. Field Offices

	1986 Current Estimate	1987 Estimate	Decrease
Budget authority..........	-0-	-0-	-0-
Obligations...............	$543,300	-0-	-$543,300

SSA's field office construction program currently involves 10 projects initiated prior to FY 1984. SSA expects to receive completion notices from GSA during FY 1986 for all 10 projects. SSA has no plans to begin any new field office construction projects because it can meet its current field space needs economically and with shorter lead time through lease rather than construction of new facilities. The 10 projects are:

New District Offices Buildings	Expansion of Previously-Built District Offices
East Los Angeles, CA	Bridgeton, NJ
Monticello, NY	Sherman, TX
Dallas, TX	Wichita Falls, TX
	West Chester, PA
	Lynchburg, VA
	Torrington, CT
	Lewiston, ID

IV. Unobligated Balance

SSA estimates that the construction account will have a remaining unobligated balance of $6,646,556 at the end of FY 1987 as shown below.

	Headquarters	Purchase Contracts	Field	Total
Unobligated balance as of September 30, 1985........	$3,232,243	$2,740,760	$4,057,613	$10,030,616
Less FY 1986 construction obligations...............	-100,000	-2,740,760	-543,300	-3,384,060
Less FY 1987 construction obligations...............	-0-	-0-	-0-	-0-
Estimated unobligated balance as of September 30, 1987..	$3,132,243	-0-	$3,514,313	$6,646,556

Limitation on Administrative Expenses

Detail of Permanent Positions (All Programs)

	1985 Estimate	1986 Estimate	1987 Estimate
Executive Level	1	1	1
Subtotal	1	1	1
ES-5	6	6	6
ES-4	33	33	34
ES-3	17	18	18
ES-2	10	10	10
ES-1	8	7	6
Subtotal	74	74	74
GS-17	1	1	1
GS-16	2	2	2
GS-GM-15	1,105	1,055	1,053
GS-GM-14	1,094	1,045	1,045
GS-GM-13	2,656	2,536	2,471
GS-12	6,013	5,742	5,462
GS-11	5,990	5,720	5,490
GS-10	15,830	16,007	15,682
GS-9	3,168	3,025	2,925
GS-8	4,397	4,199	3,799
GS-7	11,558	10,937	10,587
GS-6	2,995	2,860	2,610
GS-5	6,713	6,411	6,311
GS-4	12,846	12,267	11,931
GS-3	2,665	2,937	2,937
GS-2	605	392	145
GS-1	20	5	20
Subtotal	77,658	75,141	72,471
Ungraded	454	454	454
Total Permanent Positions	78,187	75,670	73,000
Unfilled Positions, End-of-Year	5,962	4,353	4,683
Total Permanent Employment End-of-Year	72,225	71,317	68,317

Limitation on Administrative Expenses

Estimates for Consulting Services

Evaluation:

Account Title	Type [1]	Source of Funds [2]	Obligations			
			1985 Actual	1986 Appropriation	1986 Current Estimate	1987 Estimate
Limitation on Administrative Expenses.........	C	A	$1,210,485	---	---	---
Limitation on Administrative Expenses.........	A	A	---	$100,000	$100,000	$25,000
Subtotal, evaluation.............			$1,210,485	$100,000	$100,000	$25,000
Non-Evaluation:						
Limitation on Administrative Expenses.........	C	A	$1,297,247	$2,559,000	$4,985,600	$5,155,000
Total, consulting services.......			$2,507,732	$2,659,000	$5,085,600	$5,180,000

TOTALS:

	1985 Actual	1986 Appropriation	1986 Current Estimate	1987 Estimate
Contractual services...............	$2,507,732	$2,559,000	$4,985,600	$5,155,000
Personnel appointments.............	---	---	---	---
Advisory committee expenses........	---	100,000	100,000	25,000
Total, consulting services	$2,507,732	$2,659,000	$5,085,600	$5,180,000

---

[1] C: contractual services: A: advisory committee.

[2] A: appropriated funds.

Consulting Services

Limitation on Administrative Expenses

1985 Actual	1986 Appro-priation	1986 Current Estimate	1987 Estimate
$2,507,732	$2,659,000	$5,085,600	$5,180,000

SSA utilizes consultant services to perform activities that are needed to improve program administration, carry out congressional mandates or implement public laws, but for which SSA does not have the required expertise or resources. In FY 1985, major expenditures in this area were for a study by the American Psychiatric Association of SSA regulations on mental impairments; the work of the National Academy of Science's Commission on the Evaluation of Pain; and a Cost Effectiveness Measurement System for the Disability State Agencies.

Section 515 of the Treasury, Postal Service and General Government Appropriation requires agencies subject to apportionment to withhold from obligation in FY 1986 an amount equal to 10 percent of the "budget authority provided for fiscal year 1986 by this or any other Act that would otherwise be available for consulting services, management and professional services and special studies and analyses...." This withholding action is reflected in the Limitation on Administrative Expenses (LAE) Account and is shown as an unobligated amount lapsing on the Amount Available for Obligation Exhibit.

However, within the total LAE budget authority remaining available for FY 1986, SSA needs to obtain consultant services for several critical projects in the disability, systems and program instructions areas that were not anticipated in the consultant services estimates in the FY 1986 President's budget. As a result, the FY 1986 current estimate for consultant services is higher than the FY 1986 President's budget. Major projects now scheduled for FY 1986 include:

> A Personal Appearance Demonstration Project -- This project is required by the Disability Benefits Reform Act of 1984 (P.L. 98-460). Its purpose is to test whether a face-to-face meeting between the claimant and the decisionmaker, before an initial unfavorable decision is made, will result in better decisions and a more expeditious decision process overall. The results of the project will be used by the Secretary to prepare a report to the Congress on disability demonstration projects.

Distributed Data Processing Project -- This project involves investigating alternative systems design concepts and developing plans for a systems architecture that would provide for future geographical distribution of SSA ADP resources so as to guard against the risk of a major disruption of SSA operations in the event of a natural or man made disaster such as tornado, fire or sabotage. Decentralization of National Computer Center operations to ensure safety of SSA records was recommended by the President's Private Sector Survey on Cost Control (Grace Commission). Consultant services are required to validate design alternatives and transition approaches, and provide advice on how other firms and agencies have approached their problems in this area.

Program Operations Manual Systems (POMS) Analysis Project -- This project involves a comprehensive analysis of SSA's process for designing, writing and publishing its program instructions. This project is part of the Acting Commissioner's objective to improve programmatic issuances.

In FY 1987, SSA plans to continue to use consultant services to provide needed expertise that does not exist within SSA. For example, in the systems area, consultants will continue to provide their expertise in recommending ways that SSA can protect its data processing resources against potential sabotage. Other consultants will help formulate requirements, perform capacity analysis, provide systems programming support and software selection for the replacement of the Administrative-Management Information computer facility. In the disability area, SSA also plans to have consultants provide advice for updating and revising the impairment evaluation criteria for musculoskeletal impairments. Other consultant services will be utilized to determine compliance by States with the Cost Effectiveness Measurement System developed for their use, and to develop state-of-the-art computer assisted training approaches.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF CHILD SUPPORT ENFORCEMENT

Child Support Enforcement Program

FY 1987 Budget — Page No.

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OFFICE OF CHILD SUPPORT ENFORCEMENT

Child Support Enforcement Program

For carrying out, except as otherwise provided, titles IV-D and XI of the Social Security Act, [$432,601,000] *$599,633,000* to remain available until expended.

For making, after May 31 of the current fiscal year, payments to States under title IV-D of the Social Security Act, for the last three months of the current fiscal year, for unanticipated costs, incurred for the current fiscal year, such sums as may be necessary.

For making payments to States under title IV-D of the Social Security Act for the first quarter of fiscal year [1987, $170,750,000], *1988,*[1/] *$187,000,000* to remain available until expended. *(Department of Health and Human Services Appropriation Act, 1986.)*

Explanation of Language Changes

[1/] The fiscal year 1988 replaces 1987 in the advance appropriation language.

Child Support Enforcement

Language Analysis

Language Provisions	Explanation
"...to remain available until expended."	This language provides authority to use funds appropriated but not obligated in one fiscal year for obligations and expenditures in a subsequent year.
"For making, after May 31 of the current fiscal year, payments to States under title IV-D of the Social Security Act, for the last three months of the current fiscal year, for unanticipated costs, incurred for the current fiscal year, such sums as may be necessary."	Provides that unanticipated increases in costs to which States become entitled in the last 3 months of the fiscal year will be funded from an indefinite appropriation from the current fiscal year, rather than from borrowing authority from the next fiscal year.
"For making payments to States under title IV-D of the Social Security Act for the first quarter of fiscal year [1987, $170,750,000] *1988, $187,000,000...*"	This language provides that funds for the first quarter grant awards of fiscal year 1988 will be appropriated on an advance basis.

Office of Child Support Enforcement

Amounts Available for Obligation 1/

	1985 Actual	1986 Current Estimate 2/	1987 Estimate	1988 Estimate 3/
Appropriation..........	$635,000,000	$592,601,000	$770,383,000	$187,000,000
Regular appropriation...	(497,000,000)	(432,601,000)	(599,633,000)	(---)
First quarter advance appropriation.........	(138,000,000)	(160,000,000)	(170,750,000)	(187,000,000)
Sequester order.........	---	-33,128,000	---	---
Subtotal, adjusted appropriation......	635,000,000	559,473,000	770,383,000	187,000,000
Additional appropriation available from current year...................	---	26,729,000	---	---
Subtotal, budget authority.........	$635,000,000	$586,202,000	$770,383,000	$187,000,000
Recoveries of prior year obligations......	+515,000	-0-	-0-	-0-
Unobligated balance, start of year.........	+52,144,000	+77,518,000	+117,000	---
Unobligated balance, rescinded.............	---	-51,000	---	---
Unobligated balance, end of year...........	-77,518,000	-117,000 4/	---	---
Reduction in new spending authority.........	---	-3,000	---	---
Total, obligations..	$610,141,000	$663,549,000	$770,500,000	$187,000,000

1/ Excludes the following amounts for reimbursements: $35,357 in FY 1985, $61,000 in FY 1986, and $61,000 in FY 1987.

2/ The 1986 current estimate includes a reduction in budgetary resources of $33,182,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

3/ The FY 1988 estimate represents the amount of the advance appropriation required to meet all States' requirements for first quarter FY 1988 grants.

4/ Reflects reduction of $117,000 required by section 515 of the Treasury Postal Services Appropriation Act of 1986, P.L. 99-190.

Office of Child Support Enforcement

Summary of Changes

1986 Appropriation	$592,601,000
Amount available from advance appropriation	(160,000,000)
1986 Sequester order	-33,128,000
1986 Estimated indefinite current year appropriation	+26,729,000
Total estimated budget authority	$586,202,000
(Obligations)	(663,549,000)
1987 Request	770,383,000
(Obligations)	(770,500,000)
Net Change	$184,181,000
(Obligations)	(+106,951,000)

	1986 Base		Change from Base	
	Pos. (FTE)	Budget Authority (Obligations)	Pos. (FTE)	Budget Authority (Obligations)
Increases:				
Built-in:				
1. State and local administration	---	$554,029,000 ($630,008,000)	---	+$178,971,000 (+$102,992,000)
This includes:				
a. Increased State requests for 90 percent Federal funding for State automated data processing systems	---	---	---	+8,100,000 (+8,100,000)
b. Increased State requests for 70 percent Federal funding for State automated data processing systems	---	---	---	+3,500,000 (+3,500,000)

	1986 Base		Change from Base	
	Pos. (FTE)	Budget Authority (Obligations)	Pos. (FTE)	Budget Authority (Obligations)
c. State increase in salaries and fringe benefits.............	---	---	---	+$9,800,000 (+$9,800,000)
d. Increased cost of State cooperative agreements and State purchases of services.....	---	---	---	+$26,600,000 (+$26,600,000)
e. Increases in AFDC caseload and normal State program growth..........................	---	---	---	+$54,746,000 (+$54,992,000)
f. Financing adjustments:				
1. $76,342,000 in previously appropriated funds which decreased FY 1986 budget authority....	---	---	---	+$76,342,000 (-0)
2. $117,000 in consultant services savings from FY 1986 carried into FY 1987 to reduce budget authority....................	---	---	---	-$117,000 (-0-)

	1986 Base		Change from Base	
	Pos. (FTE)	Budget Authority (Obligations)	Pos. (FTE)	Budget Authority (Obligations)
2. Interstate enforcement project grants--increase in State activities implementing interstate enforcement projects................	---	$11,484,000 ($11,484,000)	---	+$3,516,000 (+$3,516,000)
3. Federal administration..............	335 (307)[1]	$20,211,000 ($21,579,000)	-10 (-10)	+$1,672,000 (+$421,000)
This includes:				
a. Prior year financing adjustment taken in FY 1986 reducing current year budget authority...........	---	---	---	+$1,125,000 (-0-)
b. Financing Adjustment............	---	---	---	+$664,000 (+$421,000)
4. Research and evaluation.............	---	$478,000 ($478,000)	---	+$22,000 (+$22,000)
Net Change......................	---	---	---	+$184,181,000 (+$106,951,000)

---

[1] Excludes 12 FTE's and 14 workyears currently assigned from OCSE to the Social Security Administration to provide administrative overhead support to OCSE.

Child Support Enforcement Program

Budget Authority by Activity
(Budget authority in thousands)

	1985 Actual	1986 Appropriation	1986 Current Estimate[1]	1987 Estimate	1988 Estimate[2]
State and local administration..	$604,489	$558,929	$554,029	$733,000	$187,000
(Obligations)................	($576,555)	($639,000)	($630,008)	($733,000)	($187,000)
Interstate support enforcement projects......................	7,000	12,000	11,484	15,000	-0-
(Obligations)................	(7,000)	(12,000)	(11,484)	(15,000)	-0-
Research and evaluation.........	500	500	478	500	---
(Obligations)................	(462)	(500)	(478)	(500)	---
Federal administration..........	23,011	21,172	20,211	21,883 [3]	---
(Obligations)................	(26,125)	(22,348)	(21,579)	(22,000)	---
Total, budget authority.........	$635,000	$592,601	$586,202	$770,383	$187,000
(Obligations)................	($619,142)	($673,848)	($663,549)	($770,500)	($187,000)
Full-time equivalents...........	326 [4]	313 [4]	307 [5]	297 [5]	---

---

[1] For explanation of the difference between FY 1986 Appropriation and FY 1986 Current Estimate, see section entitled "Revisions to the FY 1986 Budget" in the General Statement for this account.

The FY 1986 current estimate reflects the following:

	Amount
1. Indefinite appropriation required to meet increased State estimates of operating costs..	+$26,[illegible]29,000
2. Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177)........	-33,[illegible]28,000

[2] The FY 1988 estimate represents the amount of the advance appropriation required to meet all States' requirements for first quarter FY 1988 grants.

3/ Budget authority has been reduced by $117,000 as a result of carryover resulting from section 515 of the Treasury Postal Service Appropriation of 1986.

4/ Excludes 17 FTE's and 19 workyears assigned from OCSE to the Social Security Administration to provide administrative overhead support to OCSE.

5/ Excludes 12 FTE's and 14 workyears currently assigned from OCSE to the Social Security Administration to provide administrative overhead support to OCSE.

Child Support Enforcement Program

Budget Authority by Object

	1986 Current Estimate	1987 Estimate	Increase or Decrease	1988 Estimate[1]
Full-time equivalent of full-time permanent positions..........	300[2]	290[2]	-10	--
Full-time equivaldnt of all other positions..............	7	7	-0-	--
Total compensable workyears....	317[2]	307[2]	-10	--
Average ES salary..............	$69,300	$70,686	+$1,386	--
Average GS grade...............	11.00	11.09	+0.09	--
Average GS salary..............	$33,293	$33,959	+$666	--
Personnel compensation:				
Permanent positions..........	$10,869,000	$10,725,000	-$144,000	--
Other personnel compensation................	26,000	26,000	-0-	--
Subtotal, personnel compensation............	$10,895,000	$10,751,000	-$144,000	--
Personnel benefits.............	1,112,000	1,097,000	-15,000	--
Travel and transportation of persons......................	1,614,000	1,561,000	-53,000	--
Transportation of things.......	46,000	50,000	+4,000	--

Child Support Enforcement Program

Budget Authority by Object - Continued

	1986 Current Estimate	1987 Estimate	Increase or Decrease	1988 Estimate
Rent, communications and utilities:				
Standard level user charges....................	$984,000	$1,073,000	+$89,000	---
Other rents, communications and utilities..............	977,000	927,000	-50,000	---
Printing and reproduction......	116,000	116,000	-0-	---
Other services................	3,401,000	5,224,000	+1,823,000	---
Supplies and materials.........	139,000	134,000	-5,000	---
Equipment......................	927,000	950,000	+23,000	---
Grants, subsidies and contributions................	565,991,000	748,500,000	+182,509,000	$187,000,000
Total, budget authority by object..................	$586,202,000	$770,383,000	+$184,181,000	$187,000,000

1/ The 1988 estimate represents the amount of the advance appropriation required to meet all States' requirements for first quarter 1988 grants.

2/ Excludes 12 FTE's and 14 workyears currently assigned from OCSE to the Social Security Administration to provide administrative overhead support to OCSE.

Child Support Enforcement Program

Authorizing Legislation

	1986 Amount Authorized	1986 Current Estimate	1987 Amount Authorized	1987 Budget Request	1988 Budget Request [1]
Title IV-D and XI of the Social Security Act............	Indefinite[2]	$559,473,000[3]	Indefinite[2]	$770,383,000	$187,000,000

---

[1] The FY 1988 estimate represents the amount of the advance appropriation required to meet all States' requirements for first quarter FY 1988 grants.

[2] Section 8 of the Child Support Enforcement Amendments of 1984 authorizes $12 million in FY 1986 and $15 million in FY 1987 for Interstate Enforcement Project Grants.

[3] Reflects a reduction of $33,128,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

Child Support Enforcement Program

Table of Estimates and Appropriations

Fiscal Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1983[1/]	$408,377,000	$408,377,000	$471,000,000	$471,000,000[2/]
1984	$406,463,000	$416,463,000	$607,000,000	$607,000,000
1985	$563,411,000	$563,411,000	$635,000,000	$635,000,000
1986	$592,101,000	$592,601,000	$592,601,000	$592,601,000
1986 Sequester Order	-$33,128,000			
1987	$770,383,000[3/]			
1988	$187,000,000			

[1/] Prior to FY 1983, funding for child support enforcement (CSE) activities was provided through the Assistance Payments appropriation. Beginning in FY 1983 CSE funding was provided through a separate appropriation.

[2/] Includes $123,500,000 transferred from the Assistance Payments appropriation in FY 1983.

[3/] The President's appropriation request of $770,383,000 in FY 1987 includes $170,750,000 which was appropriated in the FY 1986 appropriation bill and which is required to fund the program under current law for the first quarter of FY 1987.

Child Support Enforcement Program

Justification

Account Summary

	1986 Current Estimate	1987 Estimate	Increase or Decrease	1988 Estimate 1/
Child Support Enforcement Program:				
1. State and local administration............	$554,029,000	$733,000,000	+$178,971,000	$187,000,000
(Obligations).............	($630,008,000)	($733,000,000)	(+$102,992,000)	($187,000,000)
2. Interstate project grants.....................	11,484,000	15,000,000	+3,516,000	---
(Obligations).............	(11,484,000)	(15,000,000)	(+3,516,000)	---
3. Research and evaluation...	478,000	500,000	+22,000	---
(Obligations).............	(478,000)	(500,000)	(+22,000)	---
4. Federal administrative expenses..................	20,211,000	21,883,000	+1,672,000	---
(Obligations)............	(21,579,000)	(22,000,000)	(+421,000)	---
Total, budget authority..	$586,202,000	$770,383,000	+$184,181,000	$187,000,000
(Obligations)...........	($663,549,000)	($770,500,000)	(+$106,951,000)	($187,000,000)
Full-time equivalents....	307 2/	297 2/	-10	---
Workyears................	317 2/	307 2/	-10	---

1/ The 1988 estimate represents the amount of the advance appropriation required to meet all States' requirements for first quarter 1988 advance grants.

2/ Excludes 12 FTE's and 14 workyears currently assigned from OCSE to the Social Security Administration to provide administrative overhead support to OCSE.

General Statement

The Child Support Enforcement (CSE) program, part D of title IV of the Social Security Act, was created "for the purpose of enforcing the support obligations owed by absent parents to their children and the spouse (or former spouse) with whom such children are living, locating absent parents, establishing paternity, obtaining child and spousal support, and assuring that assistance in obtaining support will be available...to all children for whom such assistance is requested." By accomplishing these purposes, the program helps needy families while also saving tax dollars.

The authorization for the program was effective August 1, 1975. The intent of the Federal legislation was to establish an effective nationwide program that would serve both financial and social purposes. The program strives to reduce welfare spending and strengthen families by placing financial responsibility where it belongs, on the parents. Financially, the program is expected to reduce public expenditures for welfare by securing support from absent parents on a continuing basis and assisting nonwelfare families in avoiding the need for public assistance. Most of the child support paid for AFDC families goes back to government to offset AFDC payments. (As a result of the Deficit Reduction Act of 1984, the first $50 per month of current child support collections made on behalf of AFDC families is paid directly to the family.) For some families, the payments are high enough to enable them to leave the AFDC rolls. In addition, provision of medical support by absent parents reduces Medicaid costs. Money collected for non-AFDC families goes directly to the families to help them remain self-sufficient and avoid additional welfare costs. From a social perspective, it is hoped the program will deter parents from abandoning their families for purposes of obtaining public assistance and will protect and establish the rights of children in cases where paternity has not been established.

In August 1984, Congress passed the Child Support Enforcement Amendments of 1984, the most significant changes to the program since it was established. A summary of the various provisions of the law can be found following the Program Accomplishments section of this document. In FY 1986 and FY 1987, our priority will be to continue to work aggressively with the States to implement enabling legislation carrying out the 1984 amendments and to improve program effectiveness and efficiency.

Overall Fiscal Impact of the Child Support Enforcement Program

	(Dollars in thousands) 1985	1986	1987
Total Collections:			
AFDC Related Collections......................	$1,089,000	$1,199,000	$1,293,000
Non-AFDC Collections..........................	1,585,000	1,823,000	1,978,000
Total Collections........................	$2,674,000	$3,022,000	$3,271,000
Net Program Savings:			
State Share (includes incentives).............	$281,000*	$294,000	$339,000
Federal Share.................................	-222,545*	-255,000	-331,000
Total, net savings/loss..................	$58,455	$39,000	$8,000

* Reflects final numbers not available until after the President's Budget Appendix was printed.

Overall, States save substantial amounts due to the Child Support Enforcement program, while the Federal Government, because it shoulders the preponderant share of program costs, suffers significant losses. This is because the CSE program was designed with generous financial inducements to the States and local jurisdictions to obtain their full participation. Federal grants cover 70 percent of State and local administrative costs, and the States also receive a larger share of AFDC collections than the Federal Government because financial incentives to the States are subtracted entirely from the Federal share of collections.

Nonetheless, as indicated in the table above, this program still operates in the aggregate as a moneysaver for taxpayers, and in 1985 it returned $3.24 in total AFDC and non-AFDC collections for every Federal/State dollar spent.

The sections which follow examine the reasons for the different Federal and State effects of the CSE program, and also present information about trends in CSE collections and costs.

1. **Federal Budget Effect**

Federal Budget Effect (current law)
(dollars in thousands)

	1985 Actual	1986 Estimate	1987 Estimate
Federal share of expenditures........	$583,545	$641,000	$748,000
Federal share of collections.........	(361,000)*	(386,000)	(417,000)
Net costs..........................	$222,545	$255,000	$331,000

* Reflects final numbers not available until after the President's Budget Appendix was printed.

At the Federal level, the CSE program operates at a net loss. Only the Federal share of AFDC related collections is available to offset Federal costs. However, additional dollar savings from cost avoidance can also be attributed to the program based on welfare savings created by CSE's non-AFDC collection activities. Unfortunately, to date, no reliable means has been devised to calculate these savings. However, a study is currently being conducted to determine the dollar value of cost avoidance savings. Requiring absent parents, where possible, to obtain health insurance coverage for their dependent children results in further Medicaid savings of about $60 million in FY 1987, resulting in savings realized by another Federal agency, the Health Care Financing Administration.

However, a more significant loss to the Federal Government since FY 1984 results from the $50 disregard provision of the Deficit Reduction Act of 1984. This amount is paid out of the Federal and State shares of collections, and reduces the amount of Federal program savings by $107 million in FY 1985, $112 million in FY 1986, and $124 million in FY 1987, as shown in the table below: (These figures are already reflected in the budget estimates.)

Deficit Reduction Act Impacts
($50 Passthrough Provision)

	1985 Actual	1986 Estimate	1987 Estimate
Federal impact.................	($107,000,000)	($112,000,000)	($124,000,000)
State impact...................	(79,000,000)	(83,000,000)	(90,000,000)
Total passthrough............	($186,000,000)	($195,000,000)	($214,000,000)

This provision requires States, effective October 1984, to pay the first $50 of current support collected on the support obligation directly to the AFDC family and to disregard this amount in determining their AFDC eligibility. The statute provides that this amount will not be counted in determining need and amount of the assistance payments. The intent of this provision is to foster greater cooperation by AFDC single parents in identifying absent parents so that enforcement actions can be pursued against them.

The House Appropriations Committee expressed concern about the cost of the CSE program and the need to make the program more cost effective for the Federal Government. A number of changes were made to the program under the CSE Amendments of 1984 which will increase the cost effectiveness of the program over time. Reductions in the Federal share of expenditures will reduce Federal costs. The changes made in the incentive payments should also produce a more cost effective program because the States' income will be based on their performance. The various mandatory practices will also start to have an impact on increasing collections and efficiency of program operations after the initial period of increased costs due to implementation. Similarly, initial costs for ADP development will result in future reductions in administrative costs as the result of increased efficiency. All of these things will have an impact on making the program more cost effective for the Federal Government in future years.

2. State Budget Effect

State Budget Effect (current law)
(dollars in thousands)

	1985 Actual	1986 Estimate	1987 Estimate
State share of collections*	$524,000 **	$598,000	$640,000
State share of expenditures	(243,000)	(304,000)	(301,000)
State savings	$281,000 **	$294,000	$339,000

* Includes incentives paid to States.
** Reflects final data not available until after the President's Budget Appendix was printed.

For States, the CSE program returns substantial savings in terms of States' shares of collections and from incentives paid by the Federal Government on amounts collected.

Yet a continuing problem remains for the States: the need to increase the cost effectiveness of their programs. Currently great variability exists among States. Previous reports to Congress have noted, for instance, that 14 States spent more than they collected while 6 States accounted for 65 percent of program return and only 36 percent of the costs (FY 1984 data).

The CSE amendments correct this situation by providing that both the AFDC and non-AFDC collection incentive payments be based on the State's collections and cost effectiveness. Additionally the Congress instituted new penalties to States for noncompliance with Federal requirements. The incentives and the penalties taken with the mandatory State practices provision should make State programs more uniform, effective and efficient.

An additional factor which should make State operations more efficient is that under current law the Federal matching rate is due to deline from 70 percent to 66 percent, in two steps, by 1990. To increase the incentive to achieve greater cost efficiency, a legislative proposal will be sent to the Congress to reduce the matching rate to 66 percent in 1987, rather than 1990.

Since the time the Child Support Enforcement Amendments of 1984 were enacted, States have been preparing themselves for enactment of these various, more cost effective provisions. As a result, States have committed a considerable amount of financial resources, most particularly to additional State staff to implement these provisions, to expand cooperative agreements with a variety of other State and county agencies whose cooperation and participation is required as a result of the legislation, and for the purchase of ADP equipment to facilitate and coordinate the significant increase in workloads the provisions entail. That trend began in 1985, and is projected to continue through both 1986 and 1987 when the majority of States anticipate being fully operational.

As the 1980's proceed, State expenditures related to implementing the new legislation will level off and the cost effectiveness of the legislation's provisions will be more clearly seen. The drop in matching rate under the new legislation coupled with the cost effective structure built into the new incentive formula, will also encourage an overall improvement in the measurable program savings from the Federal Government's perspective.

3. Trends in CSE Collection Estimates

Current Law Child Support Enforcement Caseload Collections for AFDC Families

	1985 Actual	1986 Estimate	1987 Estimate
Caseload (number of absent parents from whom a collection is made)..................	675,000	708,000	727,000
Total collections............................	$1,089,000,000	$1,199,000,000	$1,293,000,000
Average annual collection per case............	$1,613	$1,694	$1,778

Projections for child support enforcement collections are based on estimates provided by the States stemming from recent trends and actual experience. The estimates take into account recent legislative changes such as the Deficit Reduction Act of 1984 and the Child Support Enforcement Amendments of 1984. Collections for both AFDC and non-AFDC families are projected to increase greatly over the next several years. Increases are largely due to the Amendments of 1984 which will increase collections through the application nationwide of proven enforcement techniques and by offering States greater financial incentives than heretofore.

One proven technique now available to non-AFDC families as well as AFDC families due to the 1984 CSE amendments is the Federal income tax refund offset program. This program was originally established by Public Law 97-35 (the Omnibus Budget Reconciliation Act of 1981), and provided for the collection of past due child support through the withholding of Federal income tax refunds from absent parents whose families are receiving or have been recipients of Aid to Families with Dependent Children (AFDC).

During its 4 years of operation, the tax refund offset program has proven to be one of the most effective child support enforcement mechanisms available. Over this period, the number of cases submitted by the States and the total collections have increased steadily as shown below:

Fiscal Year	Cases Submitted	Cases Offset	Total Offset Collections
1982...........	561,000	274,000	$168 million
1983...........	870,000	339,000	175 million
1984...........	1,130,000	416,000	205 million
1985...........	1,084,000	476,000	230 million
Totals.........	3,645,000	1,505,000	$778 million

This increase in activity and collections was accompanied by a steady reduction in IRS operational costs per case offset from $17.00 in fiscal year 1982 to $11.00 in fiscal year 1983 and only $3.20 in fiscal years 1984 and 1985.

The 98th Congress, recognizing the success of the Federal tax refund offset program in collecting arrearages for welfare families, enacted legislation (the CSE Amendments of 1984) to extend the program to nonwelfare families beginning in FY 1986. This represents a breakthrough that will make a significant change in child support enforcement performance for a major segment of the population. The Federal and State CSE agencies are actively involved in preparing for the implementation of this expansion of the tax refund offset program.

4. Trends in CSE Collection Distribution Estimates

The estimated distribution of child support collections is based on past trends of how collections were distributed in accordance with the Social Security Act. The estimates also reflect the impact of the CSE Amendments of 1984 and the Deficit Reduction Act of 1984.

Current Law Distribution of Child Support Collections for AFDC Families

	1985 Actual	1986 Estimate	1957 Estimate
Payments to recipients...........	$204,000,000	$215,000,000	$236,000,000
Incentives to States and jurisdictions..................	131,000,000*	160,000,000	171,000,000
State share......................	393,000,000	438,000,000	469,000,000
Federal share....................	361,000,000*	386,000,000	417,000,000
Total collections..............	$1,089,000,000	$1,199,000,000	$1,293,000,000

* Reflects final data not available until after the President's Budget Appendix was printed.

5. Trends in State and Local Administrative Cost Estimates

The current Federal share of administrative costs is based on 70 percent of federally covered expenses. The Balanced Budget Act reduces the rate to 66.65 percent in FY 1986. Upon enactment of proposed legislation in FY 1987, the rate would drop to and remain at 66 percent. In addition, the development and enhancement of computer systems may qualify for 90 percent Federal funding. In FY 1986, the Balanced Budget Act reduces the FFP rate to 85.69 percent. With proposed legislation the rate would remain at 85.69 percent in FY 1987.

In the meantime, because of statutory implementation and managerial changes as a result of the 1984 Amendments, State program workloads will be increasing. More non-AFDC families are expected to request assistance as a result of the 1984 amendments. This will, in turn, produce a need for more staff to work the larger caseloads and to pursue existing cases more aggressively. Therefore, administrative costs are expected to continue to increase.

Expenditures for automated information management systems are also expected to continue to increase due to the number of States with approved Advanced Planning Documents and progress from planning to systems development and implementation.

Current Law State and Local Administrative Costs

	1985 Actual	1986 Estimate	1987 Estimate
State share..................	$243,000,000	$304,000,000	$301,000,000
Federal share...............	583,545,000	641,000,000	748,000,000
Total costs...............	$826,545,000	$945,000,000	$1,049,000,000

The Budget Request for FY 1986 and FY 1987

1. Key Budget Assumptions

OCSE's budget estimates for FY 1986 and FY 1987 were derived from the States' regular projections to the agency on both collections and expenditures for the current year and two succeeding years. In formulating its request, OCSE adjusts individual State estimates for known current trends in the data, anticipated economic assumptions and legislative impacts. The aggregate of the individual State estimates are then used to derive the OCSE national budget.

2. Major Budget Emphasis for FY 1986 and FY 1987

In FY 1986 and FY 1987, OCSE plans five major management initiatives which are primarily associated with improving program performance and implementing the CSE Amendments of 1984. The five initiatives are:

--Implementation of the provision of the 1984 amendments in all States through enactment of State enabling legislation, administrative action, and/or court rule.
--Developing a broad consensus in the business community to support CSE.
--Strengthening interstate enforcement.
--Encouraging and improving State automated systems.
--Improving public awareness of and support for CSE activities.

Passage and Implementation of the 1984 CSE Amendments

With the signing of the CSE Amendments of 1984, the top priority of OCSE became the implementation of the amendments. Proposed rules appeared in the Federal Register of September 19, 1984. The final rules were published in the Federal Register of May 9, 1985. Final regulations were published concerning audit and medical support provisions on October 1, 1985, and October 16, 1985, respectively.

The new law and regulations require much effort on the part of the States in terms of the passage and implementation of State legislation. One of the major functions of OCSE in conjunction with this effort has been to determine what States legislation is required to bring the various States into compliance with the new requirements. As an adjunct to this, OCSE is assisting States in the prompt passage and implementation of the needed State legislation and is tracking State progress.

Developing Business Community Resources

Another priority area for OCSE is to involve the private sector in child support enforcement. One objective is to facilitate the use of private sector resources to benefit State and local CSE program operations. Included within this objective are such activities as:

--fostering income withholding;
--drawing upon the capability of banks and other financial service organizations in program operations; and
--building awareness and support of the responsibility of parents to support their children.

Strengthening Interstate Enforcement

Enforcement of interstate cases is one of the most difficult areas of child support enforcement. The agency places a high priority on the improvement of interstate child support enforcement for the children who live in a State different from a responsible parent. Among other actions to strengthen interstate enforcement, this request includes resources to fund new and continuing demonstration grant projects. The budget includes $12 million for FY 1986 and $15 million for FY 1987.

The projects, which involve regional and national efforts as well as State pilots, will examine how to better coordinate information and activities between States; and what processing and organization changes are needed for States to improve enforcement of interstate cases. Some specific areas of study include: improved case tracking and monitoring; information clearinghouses; interstate reciprocity agreements for blood testing and wage withholding; and teleconferencing.

Improving State Automated Systems

To strengthen program management and control, as a special initiative, OCSE is encouraging States to fully automate the child support enforcement processes. Enhanced funding is available for developing comprehensive systems that will be implemented in all political subdivisions of each State. States have recognized that Statewide, comprehensive automated procedures contribute to efficient and effective program operations and are essential for successful implementation of the Child Support Enforcement Amendments. As a result, States have increased their use of enhanced Federal matching funds to install child support computer systems, making greater demands on OCSE to provide information, approval of systems proposals, and system project monitoring.

Public Awareness of Child Support Enforcement

A key element to implementing the 1984 amendments will be assuring that its major provisions are understood and used by the public. OCSE has, therefore, emphasized these efforts by publishing a how-to guide, "Handbook on Child Support Enforcement," for distribution. Copies of the handbook are distributed through State and local agencies and a national clearinghouse. Availability of the handbook is publicized in the national media.

OCSE plans to continue to expand upon efforts aimed at telling the public, employers, and other groups about the expanded services available at State CSE agencies, and the responsibility of parents to support their children. OCSE plans to continue to conduct or participate in conferences and other public forums to keep the issue before the public eye in 1986 and 1987.

In FY 1985, growing interest in child support was reflected in an increased number of national organizations that held child support conferences. Included among these were the National District Attorneys' Association Child Support Conference, the National Juvenile Justice Conference, the American Bar Association National Conference on Child Support Practice, the Eastern Regional Conference on Uniform Reciprocal Enforcement of Support, and the National Child Support Enforcement Association Conference.

3. Proposed Legislation

The FY 1987 budget for child support enforcement includes two legislative proposals. The first would reduce the State and local administrative matching rate from 70 to 66 percent, effective in 1987. Under the second, the enhanced matching rate for computer systems design and development would be phased out over a three-year period, consistent with similar proposals in other entitlement programs. These proposals are described in greater detail below:

--Acceleration of State/Local Administration Matching Rate Reduction (Savings of $39 million in 1987)

Under current law, Federal matching for State and local administrative costs is scheduled to be reduced in two steps from 70 to 66 percent by 1990: a reduction to 68 percent in 1988, and to 66 percent in 1990. However, the Balanced Budget and Emergency Deficit Control Act will result in an immediate reduction for 1986 to 66.65 percent.

The Department proposes to build on this 1986 reduction by implementing a further reduction to 66 percent in 1987. While lower, the 66 percent matching rate remains generous compared to other entitlement programs, and strengthens current incentives for more cost-effective, performance-related operations, a goal endorsed by both the Administration and the Congress. Moreover, States which improve their performance by operating more efficiently will be able to offset this loss of funding by qualifying for increased incentive funds due to their higher level of collections.

--Reduce Enhanced ADP Matching (Savings of $2 million in 1987)

Consistent with similar efforts in the AFDC and Medicaid programs, the Department is proposing to reduce, and ultimately phase out, enhanced funding for the design and development of child support enforcement computer systems by 1990. This proposal also builds on the Balanced Budget Act legislation, under which the current 90 percent Federal match for this activity will be reduced to 85.69 percent for 1986.

As proposed, the rate will be reduced to 85.69 percent in 1987, and to 75 percent in 1988 and 1989 consistent with the reduction proposed for this activity in the Aid to Families with Dependent Children program, then eliminated completely in 1990. Thereafter, these activities would be matched at the prevailing rate for State and local administrative expenses of 66 percent.

This proposal will allow States sufficient time at enhanced rates to complete modifications required by the 1984 amendments. By 1990, States will have had seven years in which to design and implement systems with enhanced matching.

4. Revisions to the 1986 Budget

Changes which have been made in the FY 1986 budget estimates since enactment of the FY 1986 Department of Health and Human Services, Appropriation Act (P.L. 99-178) include:

	Revisions to the 1986 Budget		
	Health and Human Services Appropriations Act, 1986 (P.L. 99-178)	Current Estimate	Change
State and local administrative costs			
70% FFP............	$606,000,000	$598,573,000	-$7,427,000
90% FFP............	33,000,000	31,435,000	-1,565,000
Interstate enforcement grants................	12,000,000	11,484,000	-516,000
Research and evaluation............	500,000	478,000	-22,000
Federal administrative costs.................	22,348,000	21,630,000	-718,000
Program costs (obligations).........	$673,848,000	$663,600,000[1]	-$10,248,000
Additional indefinite appropriations Current year...........	---	-26,729,000	-26,729,000
Financing adjustments (indefinite appropriation)........	-81,247,000	-77,398,000	+3,849,000
Total, revised (appropriation)....	$592,601,000	$559,473,000	-$33,128,000

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[1] Includes $51,000 of prior year funds unavailable for obligation due to the sequester order under the Balanced Budget Act.

State and Local Administrative Costs 70% FFP (-$7,427,000): The changes in State and local administrative costs represent Balanced Budget Act reductions as well as upward adjustments to expenditure estimates by the States. The cost of implementing the Child Support Enforcement Amendments of 1984 is greater than anticipated by States in their earlier estimates. The largest portion of the increases result from States hiring new staff and entering into new cooperative agreements with various support agencies in order to implement the new legislation. By the end of 1987, with the investment in resources in place necessary to implement the legislation, the expenditures should level off and the cost effectiveness of the program improved in future years.

State and Local Administrative Costs 90% FFP (-$1,565,000): Reflects Balanced Budget Act reductions.

Interstate Enforcement Grants (-$516,000): Reflects Balanced Budget Act reductions.

Research and Evaluation (-$22,000): Reflects Balanced Budget Act reductions.

Federal Administrative Costs (-$718,000): Reflects Balanced Budget Act reductions.

Additional Appropriation Current Year (-$26,729,000): Financing adjustment required in current year in order to accommodate revised upward adjustment in estimates made by the States of costs of program operations in 1986 as well as the smaller than anticipated amount of prior year funds carried over from 1985.

Financing Adjustments (indefinite appropriation) (+$3,849,000): Reflects reduction in carryover of unobligated funds from FY 1985 due to the States higher than anticipated costs related to the implementation of the new legislation.

5. Advance Appropriation

The Department of Health and Human Services Appropriations Act, 1986 includes a $170,750,000 advance appropriation for FY 1987 State and local administrative costs to fund the State's first quarter FY 1987 grants. An advance appropriation of $187,000,000 for FY 1988 State and local administrative costs is included in this budget request to fund the State's first quarter FY 1988 grants.

Program Accomplishments

	Fiscal Year ($ in millions/Caseload in thousands)				
	1982	1983	1984	1985	1986 Est.
Total collections	$1,775	$2,022	$2,376	$2,674	$3,022
AFDC.................	793	880	1,001	1,089	1,199
Non-AFDC.............	982	1,142	1,375	1,585	1,823
State savings 2/..........	$324	$303	$373	$291	$326
AFDC caseload 3/..........	597	595	647	675	708
Number of support obligations established..	462	495	573	643 4/	--- 1/
Number of parents located..................	779	831	875	875 4/	--- 1/
Number of paternities established..............	173	209	219	223 4/	--- 1/
Number of requests processed by Federal Parent Locator Service..........	233	271	382	410	--- 1/

1/ Not available.

2/ Includes incentives.

3/ Number of absent parents from whom a collection is made.

4/ Estimate not including complete fourth quarter data which was not available.

In addition to the above accomplishments, several important initiatives are currently underway, related to the Child Support Enforcement Amendments of 1984.

Program Accomplishments

--In FY 1985, total child support collections were nearly $2.7 billion, an increase over FY 1984 of $300 million. Non-AFDC collections were nearly $1.6 billion in FY 1985 and AFDC collections were nearly $1.1 billion. Non-AFDC collections increased by more than $200 million over FY 1984 and AFDC collections increased by almost $100 million over FY 1984.

--Through the IRS tax offset, more than $230 million in delinquent child support payments for 476,000 AFDC cases was collected in FY 1985.

--Final rules to implement the 1984 amendments were published in the Federal Register of May 9, 1985. Separate, final regulations were published concerning the audit and medical support enforcement provisions on October 1, 1985, and October 16, 1985, respectively.

--Since enactment of the CSE Amendments of 1984, an intensive effort has been undertaken to provide guidance and assistance to States in implementing the massive changes to their CSE programs that will be phased in over the next few years. Several of the States have already implemented many of the provisions of the 1984 amendments while others have passed necessary legislation. There are also States which, while not yet having the legislation in place, have introduced the needed legislation. Areas of legislative activity have been mandatory wage withholding, expedited legal process, State income tax refund offset, property liens, and paternity statute of limitations.

--In FY 1985, an additional 9 States gained approval of 90 percent funding for the purpose of developing Statewide, comprehensive systems bringing the total to 33 enhanced funded projects. Of these States, 25 claimed expenditures of $11 million. Three States completed development and began implementation on a Statewide basis. These Statewide, comprehensive systems projects have achieved standardization, uniformity, and increased communication among political jurisdictions within the State. Once operational, increased revenue, taxpayer savings, and better service to children and families in need of support from absent parents will flow from these technological improvements.

--The CSE Amendments of 1984 provided $7 million in FY 1985 for projects to encourage and promote the development and use of more effective methods of enforcing support obligations in interstate cases. In FY 1985, OCSE funded 15 research and demonstration grants under provisions of the 1984 amendments in such areas as clearinghouses and interstate case tracking to improve case processing; regional linkages of data bases to improve locate and paternity establishment; data base exchanges to improve locate, tax offset, wage assignment, and offset of unemployment compensation; teleconferencing for paternity testimony to speed paternity establishment; and greater use of the private sector in interstate processing.

Provision-by-Provision Explanation of Child Support Enforcement Amendments of 1984

The new law has four major themes:

- --Encourage equal treatment for welfare and nonwelfare families to avoid as well as recoup welfare costs
- --Strengthen the program by requiring use of proven collection techniques
- --Provide financial incentives and stimulus through audits for improving program performance
- --Strengthen interstate enforcement

Some of the major provisions of the new law are as follows:

Mandatory State Practices - These provisions mandate that States adopt proven child support enforcement techniques and procedures. States are required to institute wage withholding, expedited legal processes, and State income tax refund offsets for delinquent cases, among other features. These requirements increase collections which are used to reduce funding requirements in the Assistance Payments appropriation and to avoid other welfare costs. Savings from greater operational efficiency are applied to the Child Support Enforcement appropriation.

Non-AFDC Federal Tax Refund Offset - OCSE and the States have successfully used offsets to Federal income tax refunds of absent parents whose children are or were on the AFDC rolls. The CSE amendments mandated that the offset be used for non-AFDC as well, effective with tax year 1985.

Fees - States are required to charge an application fee of up to $25 for non-AFDC services. The State may pay the fee from its own funds. Additionally, States may charge 3 to 6 percent late payment fees on both AFDC and non-AFDC delinquencies. These provisions reduce administrative costs.

Financial Incentives/Non-AFDC Administrative Cost Impact - The CSE amendments make it clear that non-AFDC families must have equal access to State and local child support services. Incentives will be paid to States for both AFDC and non-AFDC collections according to a sliding scale based on cost effectiveness ranging from 6 to 10 percent of both AFDC and non-AFDC collections. The non-AFDC incentive payment is not to exceed the AFDC incentive payment for FY 1986 and FY 1987. This payment will be made directly from the Federal share of AFDC collections. The change in incentive costs is reflected in the Assistance Payments appropriation as a reduction to the Federal share of collections.

Matching Rates - The CSE amendments gradually reduce Federal Financial Participation (FFP) from 70 percent to 66 percent. A reduction of two percentage points starting with FY 1988 and an additional two percentage points reduction effective FY 1990 is required. Reduction of the Federal share of administrative costs coupled with incentives based on performance is calculated to promote increased collections and greater efficiency of operation. Legislation is currently being proposed for FY 1987 that would accelerate the FFP rate reduction to 66 percent effective in FY 1987.

Increased 90 Percent ADP Grants - Prior to enactment of the CSE amendments, States could receive 90 percent matched grants for Statewide Information Management Systems. The CSE amendments clarified the scope of these matching trends and allowed States to claim enhanced matching for automation of certain mandatory State enforcement practices required by the CSE amendments, as well as for the costs of computer hardware.

Interstate Enforcement Grants - This provision authorizes $12 million in FY 1986 and $15 million in FY 1987 for grants to States to establish special demonstration projects and testing of innovative methods of interstate enforcement. This new activity will seek remedies to the problems of support enforcement where the custodial parent and child(ren) reside in one State and the other parent lives elsewhere in the country.

Cost Avoidance - Provisions of the amendments generate cost avoidance savings in the AFDC, Medicaid, Food Stamp, and other means-tested welfare programs. That is, welfare costs that might otherwise have occurred are reduced or forestalled entirely through the receipt of child support payments by needy families.

In addition to the CSE amendments, the Deficit Reduction Act of 1984 included a provision whereby the first $50 per family per month in current AFDC collections is passed directly to the family without being counted as income. This provision produces a de facto increase in income to AFDC families on whose behalf a child support enforcement agency makes a collection. It also greatly reduces the State and Federal shares of collections used to offset Assistance Payments costs.

Child Support Enforcement Program

State and Local Administrative Costs

Authorizing Legislation: Title IV of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease	1988 1/ Estimate
Budget authority.............	$554,029,000	$733,000,000	+$178,971,000	$187,000,000
(Obligations)...............	($630,008,000)	($733,000,000)	(+$102,992,000)	($187,000,000)

Purpose and Method of Operation

To ensure that State and local agencies administering the child support enforcement program are adequately staffed, Federal grants currently provide 70 percent of State and local administrative costs. In addition, Federal grants provide 90 percent of the cost of development, implementation and enhancement of automated data processing systems. Approximately 23,000 workyears are employed by State and local title IV-D child support enforcement agencies directly and under cooperative agreements.

Rationale for the Budget Request

Included in this submission are estimates for the Child Support Enforcement Amendments of FY 1984. Also, included in the Child Support Enforcement Amendments were provisions which affect the budgets of other Federal agencies and are not reflected here.

A continuing problem in the child support enforcement program is the great variability in State operations. Previous reports to Congress have noted, for instance, that 14 States spent more than they collected while 6 States accounted for 65 percent of program return and only 36 percent of the costs (FY 1984 data).

The CSE amendments correct this situation by providing that both the AFDC and non-AFDC collections incentive payments be based on the State's collections and cost effectiveness. Additionally the Congress instituted new penalties to States for noncompliance with Federal requirements. The incentives and the penalties taken with the mandatory State practices provision (previously discussed) should make State programs more uniform, effective and efficient.

The components of the +$178,971,000 increase in budget authority for the Federal share of administrative costs are shown below:

FY 1987 Estimate	+$733,000,000
FY 1986 Estimate	554,029,000
Net change	+$178,971,000
Increased 90 percent matched grants for State automated data processing systems	+$8,100,000
Increased 70 percent matched grants for State automated data processing systems	+3,500,000
Increases in State salaries	+9,800,000
Increase in States purchase of services	+26,600,000
Increase for AFDC caseload and normal program growth	+54,746,000
Financing adjustment	+76,225,000
Total	+$178,971,000

Child Support Enforcement Program

Interstate Enforcement Project Grants

Authorizing Legislation: Title IV of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget Authority....................	$11,484,000	$15,000,000	+$3,516,000
(Obligations).....................	($11,484,000)	($15,000,000)	(+$3,516,000)

Purpose and Method of Operation

Funds requested for this activity are used to investigate new and innovative ways of providing child support enforcement services, especially support order enforcement, across State lines. Funds are provided as grants to States upon application to and approval of the Director of the Office of Child Support Enforcement (OCSE). In FY 1985, OCSE funded 15 research and demonstration grants totaling $7 million and involving 37 States. The program was created by the Child Support Enforcement Amendments of 1984.

Rationale for the Budget Request

One of the major problems confronting the child support enforcement program is the difficulty of securing support when the custodial parent and children live in one jurisdiction and the absent parent lives elsewhere in the country. Recognizing this problem, Congress authorized this project grant activity in an attempt to find and demonstrate more effective methods of establishing and enforcing support orders across State boundaries. Some specific areas of study include:

--Improved case tracking and monitoring systems.
--Interstate reciprocity agreements for blood testing and wage withholding.
--Information clearinghouses.
--ADP modules for interstate applications.
--Innovative communication techniques including teleconferencing, electronic mail and other electronic means of moving information from one jurisdiction to another.

Child Support Enforcement Program

Research and Evaluation

Authorizing Legislation: Section 1110 and 1115 of Title XI of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority....................	$478,000	$500,000	+$22,000
(Obligations)......................	($478,000)	($500,000)	(+$22,000)

Purpose and Method of Operations

Funds for this activity are used to enable OCSE to utilize contract and grants for research and demonstrations in order to add to existing knowledge and to develop new methods and techniques. From an array of possible research questions, OCSE selects those that promise to supply answers that would contribute significantly to program effectiveness nationwide. The Federal grants and contracts are made to nonprofit foundations, academic institutions, and State governments as well as for profit organizations.

The results of research projects are utilized in several ways. Findings are analyzed by OSCE staff to yield policy and operational improvements. Data and techniques are extracted and disseminated to the States through Action Transmittals, State practices issuances, and training courses. Final reports from research projects are often reproduced and distributed by OCSE's National Child Support Enforcement Reference Center.

Rationale for the Budget Request

The major thrust of OCSE's research and evaluation program is to strengthen the present program with improved information. Scheduled projects include:

--An important way to reduce program expenditures is to increase program revenues through user fees. Current law allows user fees to be charged only to recover total actual costs and few States opt to recover costs. OCSE will develop demonstration projects to test alternate, more effective ways to employ user fees, such as income-related fees, which may be more attractive to States.

--Study methods of expanding wage withholding to other forms of income.

--Study alternatives available to States to finance child support enforcement administration.

Child Support Enforcement Program

Federal Administrative Expenses

Authorizing Legislation: Titles IV, X of the Social Security Act.

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Budget authority..........................	$20,211,000	$21,883,000	+$1,672,000
(Obligations).............................	($21,579,000)	($22,000,000)	(+421,000)
Full-time equivalents.....................	307 1/	297 1/	(-10)
Workyears.................................	317 1/	307 1/	(-10)

Purpose and Method of Operation

This activity provides resources for Federal administration of the child support enforcement program. The Office of Child Support Enforcement (OCSE) provides a grants management function. It makes and then adjusts grant awards to the States in reimbursement of their expenditures after a review is made of State financial reporting to determine adequacy and completeness in meeting Federal reporting requirements. The agency also performs periodic audits of the operations of all child support agencies for compliance with requirements of the law and regulations, and to verify program results. Support is also provided to the States in development of Statewide automated systems to support collection efforts. OCSE also coordinates the Federal Tax Offset program for the States serving as the central point of contact with the IRS. OCSE provides policy direction, assistance and guidance to State and local child support enforcement agencies. Policy direction and guidance are provided to the States in program, data systems and financial management matters, including the review of State plans, grants requests and onsite review of procedures. Support is provided to States through the gathering and dissemination of research and statistical data to promote effective management and program responsiveness at the Fedeal, State and local levels. The Federal Parent Locator Service assists the child support enforcement activity by providing address and Social Security number information on absent parents as requested by the State agencies.

1/ Excludes 12 FTE's and 14 workyears currently assigned from OCSE to the Social Security Administration to provide administrative overhead support to OCSE.

Because OCSE is a small agency in terms of the number of staff, a significant number of administrative functions necessary to support internal operations have historically been performed for the agency by the Social Security Administration. These functions include, but are not limited to, payroll service, grant and contract administration, and accounting and billing functions. Currently OCSE has transferred 12 FTE's and 14 workyears to SSA for these functions. Should OCSE opt to have these functions performed in-house or by another Federal agency these personnel resources will have to be reallocated accordingly.

Rationale for the Budget Request

As indicated in the General Statement for this account, a major undertaking of the child support program will be the implementation of the Child Support Enforcement Amendments of FY 1984 (P.L. 98-378). Translation of the statutory provisions of the 1984 amendments into detailed policy guidance is well underway, with significant participation on the part of State and local agencies, consumer advocates, and many other concerned parties. Complementing these basic efforts, specific assistance is being provided to State and local decisionmakers and to program administrators in the form of exemplary or model legislation, best practices already being employed on a limited basis, help in automating recordkeeping systems to satisfy the mandatory income withholding and other provisions of the new legislation, and similar matters.

The Office of Child Support Enforcement continues to strive to increase the level of child support collections, improve State administration and management of the program and foster cost-effective program operations. Since enactment of the Child Support Enforcement Amendments, an intensive effort has been undertaken to provide guidance and assistance to States in implementing the changes to their child support enforcement programs that will be phased in over the next few years. Implementation guidance is provided directly and through contractual arrangements with national professional organizations involved in child support enforcement. This is necessary to assist the many participants in the support enforcement process to achieve more effective program management and operations.

The Office of Child Support Enforcement, in cooperation with other interested agencies and organizations, will continue to foster program improvement by building public awareness in addition to furnishing management assistance, directly or through contractors. A variety of educational and training efforts, ranging from a consumer-oriented handbook to technical training of State and local child support enforcement staff through the National Institute for Child Support Enforcement, are building public awareness of the provisions of the child support enforcement program and laying the foundation for more effective and more efficient program operations serving those in need of child support.

Federal Share of State and Local Administrative Costs

States and Jurisdictions	1985 Actual	1986 Estimate	1987 Estimate
Alabama	$9,087,000	$10,809,000	$11,580,000
Alaska	3,485,000	3,680,000	4,054,000
Arizona	4,197,000	4,978,000	7,996,000
Arkansas	3,625,000	3,807,000	4,215,000
California	89,694,000	90,441,000	108,828,000
Colorado	6,435,000	6,839,000	7,706,000
Connecticut	9,881,000	11,962,000	14,466,000
Delaware	1,265,000	3,041,000	3,018,000
District of Columbia	3,434,000	4,072,000	4,711,000
Florida	15,409,000	22,841,000	32,113,000
Georgia	8,373,000	9,030,000	10,450,000
Hawaii	3,459,000	3,671,000	4,200,000
Idaho	2,136,000	1,907,000	2,248,000
Illinois	19,230,000	21,442,000	25,238,000
Indiana	6,241,000	7,289,000	10,059,000
Iowa	4,187,000	4,285,000	5,000,000
Kansas	3,918,000	5,504,000	6,230,000
Kentucky	6,575,000	8,102,000	10,473,000
Louisiana	11,591,000	11,117,000	12,178,000
Maine	2,532,000	2,884,000	3,324,000
Maryland	15,555,000	16,917,000	18,975,000
Massachusetts	20,069,000	19,908,000	22,396,000
Michigan	32,982,000	34,622,000	43,433,000
Minnesota	14,264,000	15,755,000	17,600,000
Mississippi	2,395,000	2,970,000	4,967,000
Missouri	7,971,000	7,698,000	9,059,000
Montana	1,131,000	1,024,000	1,180,000
Nebraska	3,217,000	3,762,000	4,168,000
Nevada	2,494,000	2,518,000	2,874,000
New Hampshire	1,807,000	2,266,000	2,533,000
New Jersey	28,130,000	33,542,000	38,200,000
New Mexico	2,629,000	2,212,000	2,421,000
New York	74,011,000	69,645,000	74,499,000
North Carolina	10,726,000	11,108,000	13,119,000
North Dakota	1,110,000	1,142,000	1,295,000

States and Jurisdictions	1985 Actual	1986 Estimate	1987 Estimate
Ohio	$17,812,000	$19,826,000	$21,488,000
Oklahoma	4,539,000	5,496,000	4,842,000
Oregon	7,944,000	9,614,000	10,750,000
Pennsylvania	38,918,000	37,079,000	41,246,000
Rhode Island	1,720,000	1,714,000	1,943,000
South Carolina	4,589,000	8,168,000	11,204,000
South Dakota	935,000	976,000	1,061,000
Tennessee	5,723,000	9,078,000	10,946,000
Texas	9,783,000	14,598,000	16,695,000
Utah	5,916,000	6,152,000	7,210,000
Vermont	998,000	1,033,000	1,278,000
Virginia	6,401,000	8,276,000	9,483,000
Washington	16,139,000	17,957,000	19,648,000
West Virginia	2,001,000	2,183,000	2,986,000
Wisconsin	15,458,000	19,437,000	21,539,000
Wyoming	487,000	559,000	590,000
American Samoa	---	---	---
Guam	144,000	239,000	276,000
Puerto Rico	2,976,000	3,922,000	4,288,000
Trust Territory	---	---	---
Virgin Islands	375,000	457,000	615,000
Subtotal	$576,103,000	$629,554,000	$732,894,000
Adjustments 1/	452,000	454,000	106,000
Total	$576,555,000	$630,008,000	$733,000,000

1/ Adjustment for rounding.

Federal Share of Collections

States and Jurisdictions	1985 Actual	1986 Estimate	1987 Estimate
Alabama	$3,314,000	$4,580,000	$5,209,000
Alaska	658,000	611,000	643,000
Arizona	1,529,000	1,281,000	1,438,000
Arkansas	3,973,000	3,151,000	3,271,000
California	47,033,000	55,880,000	57,476,000
Colorado	2,796,000	2,904,000	3,040,000
Connecticut	7,326,000	7,177,000	7,879,000
Delaware	1,101,000	1,114,000	1,164,000
District of Columbia	938,000	969,000	997,000
Florida	7,666,000	7,279,000	8,108,000
Georgia	6,864,000	7,041,000	7,803,000
Hawaii	1,428,000	1,464,000	1,529,000
Idaho	2,112,000	1,974,000	1,924,000
Illinois	7,529,000	9,823,000	12,131,000
Indiana	9,238,000	10,099,000	11,906,000
Iowa	8,766,000	8,194,000	8,379,000
Kansas	2,875,000	2,889,000	2,815,000
Kentucky	3,548,000	3,869,000	4,501,000
Louisiana	4,870,000	5,533,000	5,895,000
Maine	4,618,000	5,474,000	6,064,000
Maryland	5,793,000	7,149,000	7,962,000
Massachusetts	13,532,000	13,159,000	14,168,000
Michigan	45,371,000	40,936,000	45,633,000
Minnesota	10,580,000	11,360,000	13,425,000
Mississippi	1,739,000	1,389,000	1,377,000
Missouri	4,999,000	5,816,000	6,320,000
Montana	1,533,000	1,267,000	1,354,000
Nebraska	2,110,000	2,111,000	2,251,000
Nevada	447,000	352,000	378,000
New Hampshire	683,000	777,000	767,000
New Jersey	15,143,000	15,337,000	15,915,000
New Mexico	1,738,000	2,124,000	2,237,000
New York	19,456,000	24,105,000	25,383,000
North Carolina	8,806,000	9,380,000	10,211,000
North Dakota	991,000	1,114,000	1,202,000

States and Jurisdictions	1985 Actual	1986 Estimate	1987 Estimate
Ohio	$12,322,000	$15,070,000	$15,804,000
Oklahoma	2,460,000	2,683,000	2,818,000
Oregon	5,248,000	4,974,000	5,255,000
Pennsylvania	20,953,000	21,400,000	21,679,000
Rhode Island	1,635,000	1,379,000	1,412,000
South Carolina	2,929,000	3,350,000	5,115,000
South Dakota	1,300,000	1,300,000	1,360,000
Tennessee	3,568,000	4,268,000	4,483,000
Texas	5,064,000	5,960,000	6,821,000
Utah	6,703,000	6,654,000	7,460,000
Vermont	1,256,000	1,347,000	1,489,000
Virginia	4,837,000	6,451,000	7,432,000
Washington	10,673,000	10,582,000	11,056,000
West Virginia	2,248,000	2,473,000	2,596,000
Wisconsin	18,434,000	18,725,000	19,789,000
Wyoming	238,000	263,000	266,000
American Samoa			
Guam	92,000	97,000	101,000
Puerto Rico	289,000	403,000	459,000
Trust Territory			
Virgin Islands	25,000	37,000	47,000
Subtotal	$361,377,000	$385,098,000	$416,197,000
Adjustment	-377,000	+902,000	803,000
Total	$361,000,000	$386,000,000	$417,000,000

[1] Adjustments represent the difference between national estimates and State actuals.

Child Support Enforcement Program

Detail of Permanent Positions

	1985 Actual	1986 Estimate	1987 Estimate
Executive Level IV	--	--	--
Subtotal	--	--	--
ES-5	1	1	1
ES-4	2	2	2
ES-3	--	--	--
ES-2	--	--	--
ES-1	--	--	--
Subtotal	3	3	3
GS-17	--	--	--
GS-16	--	--	--
GS-GM-15	19	19	19
GS-GM-14	26	26	26
GS-GM-13	94	94	94
GS-12	60	52	52
GS-11	26	21	21
GS-10	--	--	--
GS-09	30	24	24
GS-08	2	2	2
GS-07	25	27	27
GS-06	19	19	19
GS-05	33	23	23
GS-04	15	14	14
GS-03	5	4	4
GS-02	--	--	--
GS-01	--	--	--
Subtotal	354	325	325
Ungraded	2	2	2
Total Permanent Positions	359	330	330
Unfilled Positions, End-of-Year	-59	-40	-47
Total Permanent Employment End-of-Year	300	290	283[1]

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[1] Reflects current data not available until after the President's Budget Appendix was printed.

Estimates for Consulting Services

	Type 1/	Source of Funds 2/	Obligations 1985	1986 Appropriation	1986 Current Estimate	1987
Non Evaluation:						
Child Support Enforcement........	C	A	$2,569,000	$2,267,000	$2,150,000	$2,150,000
Total, consulting services..........................			$2,569,000	$2,267,000	$2,150,000	$2,150,000
TOTALS:						
Contractual services...............			$2,569,000	$2,267,000	$2,150,000	$2,150,000
Personnel appointments.............			---	---	---	---
Advisory committee expenses........			---	---	---	---
Total, consulting services.........			$2,569,000	$2,267,000	$2,150,000	$2,150,000

1/ C: contractual services obligations
2/ A: appropriated funds

Child Support Enforcement

1985	1986 Appropriation	1986 Current Estimate	1987
$2,569,000	$2,267,000	$2,150,000	$2,150,000

Office of Child Support Enforcement (OCSE) utilizes consultant services to perform activities that are needed to improve program administration but for which OCSE does not have the required expertise or resources.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

SOCIAL SECURITY ADMINISTRATION

Office of Refugee Resettlement

	1987 Estimate		
	FTE	Amount	Page Number
Refugee and Entrant Assistance	77*	$373,998,000	2

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* Excludes 40 full-time equivalents (FTEs) for refugee preventive health activities, which are included in the FY 1987 budget request for the Public Health Service.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF REFUGEE RESETTLEMENT

Refugee and Entrant Assistance

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OFFICE OF REFUGEE RESETTLEMENT

Refugee and Entrant Assistance

[Such amounts as may be necessary for continuing the following activities, not otherwise provided for in this joint resolution, which were conducted in the fiscal year 1985, under the terms and conditions provided in applicable appropriations Acts for the fiscal year 1985, at the current rate: Provided, That no appropriation or fund made available or authority granted pursuant to this subsection shall be used to initiate or resume any project or activity for which appropriations, funds, or authority were not available during fiscal year 1985: Refugee and entrant assistance activities under the provisions of title IV of the Immigration and Nationality Act including $50,000,000 for targeted assistance grants and $4,000,000 for voluntary agency matching grants; title IV and part B of title III of the Refugee Act of 1980; and sections 501(a) and (b) of the Refugee Education Assistance Act of 1980;] 1/

For carrying out title IV of the Immigration and Nationality Act, title IV and Part B of title III of the Refugee Act of 1980, and sections 501(a) and (b) of the Refugee Education Assistance Act of 1980, $373,998,000: Provided, That during the eighteen-month period beginning with the first month in which a refugee enters the United States, such refugee shall be deemed ineligible for assistance under title IV-A or XIX of the Social Security Act for any month in such period for which cash or medical assistance is available under *section 412(e) of the Immigration and Nationality Act:* [2] *Provided further, That such sums may be expended for individuals who would meet the definition of "Cuban and Haitian entrant" under section 501(e) of the Refugee Education Assistance Act of 1980, but for application of paragraph (2)(B) thereof.*

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[1] A regular 1986 appropriation for this account had not been enacted at the time this budget was prepared. A continuing resolution (Public Law 99-190) provides funds through September 30, 1986.

[2] Language has been added to finance all refugee assistance through this account under program rules more suited to refugees' circumstances and to limit the period of full reimbursement for States to eighteen months instead of the current thirty-six months.

Refugee and Entrant Assistance

Language Analysis

Language Provision	Explanation
"For carrying out title IV of the Immigration and Nationality Act, title IV and Part B of title III of the Refugee Act of 1980,..."	The 1987 budget request is based on extension of authority of the Refugee Act of 1980 (P.L. 96-212) enacted on March 17, 1980, and the Refugee Assistance Amendments of 1982 (P.L. 97-363), which amend title IV of the Immigration and Nationality Act. That legislation repeals the Indochina Migration and Refugee Assistance Act of 1975, and eliminates the domestic assistance provisions of the Migration and Refugee Assistance Act of 1962. These two Acts were the previous authorities for operating the Refugee Assistance programs. Public Law 96-212 authorizes services to eligible refugees.
"... and sections 501(a) and (b) of the Refugee Education Assistance Act of 1980,..."	The 1987 budget request is based on authority of the Refugee Education Assistance Act of 1980 (P.L. 96-422) which authorizes refugee assistance services to Cuban and Haitian entrants.
"...Provided, That during the eighteen-month period beginning with the first month in which a refugee enters the United States, such refugee shall be deemed ineligible for assistance under title IV-A or XIX of the Social Security Act for any month in such period for which cash or medical assistance is available under section 412(e) of the Immigration and Nationality Act:..."	The 1987 budget request proposes a new policy that refugees be eligible only for special Refugee Cash and Medical Assistance benefits under this appropriation (rather than AFDC and Medicaid benefits) for their first eighteen months in the U.S. Where refugees would otherwise be eligible for categorical assistance, benefits under the refugee program will at least equal the level of comparable categorical benefits.

Refugee and Entrant Assistance

Language Analysis

Language Provision	Explanation
"... Provided further, That such funds may be expended for individuals who would meet the definition of "Cuban and Haitian entrant" under section 501(e) of the Refugee Education Assistance Act, but for the application of paragraph (2) (B) thereof."	This language authorizes the Department of Health and Human Services to reimburse States for assistance authorized by Title V of the Refugee Education Assistance Act for Cuban and Haitian entrants. This applies to entrants with legally enforceable orders of exclusion or deportation only when removal has not been practicable.

Refugee and Entrant Assistance

Amounts Available for Obligation

	1985 Actual	1986 Estimate	1987 Estimate[1]
Appropriation (P.L. 99-190)	$444,372,000	$427,861,000	$373,998,000
Sequester order	---	- 18,398,000	---
Proposed rescission	---	- 87,551,000	---
Subtotal, adjusted budget authority (appropriation)	$444,372,000	$321,912,000	$373,998,000
Recovery of prior year obligations	586,000	---	---
Unobligated balance, start of year	43,009,000	3,196,000	---
Unobligated balance, end of year.	- 3,196,000	---	---
Unobligated balance, lapsing	- 9,689,000	- 100,000	---
Total obligations	$475,082,000	$325,008,000	$373,998,000

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[1] Includes amounts for cash and medical assistance previously funded through appropriations under title IV-A and title XIX of the Social Security Act.

Refugee and Entrant Assistance

Summary of Changes

1986 Estimate	$427,861,000
1986 Sequester order	- 18,398,000
1986 Proposed rescission	- 87,551,000
Total estimated budget authority	321,912,000
(Obligations)	(325,008,000)
1987 Request	373,998,000
(Obligations)	(373,998,000)
Net change	+ 52,086,000
(Obligations)	(+ 48,990,000)

	1986 base	Change from base
Increases:		
Built-in:		
1. Increase in costs of overseas and domestic health screening and notification services, including secondary migrants	$ 8,039,000	+$2,116,000
2. Within grade increases ...	6,130,000	+75,000
3. Increase in average benefit costs for State cash and medical assistance	259,113,000	+9,753,000
4. Increase in unit costs of social services	44,802,000	+3,501,000
5. Increase in related (Federal) administrative costs (e.g., travel, space, supplies, equipment, other services)	6,130,000	+78,000
6. Increase in costs for unaccompanied minors and SSI State Supplementation	259,113,000	+1,000,000
7. Increase in related administrative costs for preventive health personnel	8,039,000	+200,000
Subtotal		+$16,723,000

Refugee and Entrant Assistance

Summary of Changes

	1986 base	Change from base
Increases:		
Program changes:		
1. Increase in cash assistance (and related administrative) costs due to change to an 18-month all-Refugee Cash Assistance (RCA) program (i.e., the normal Federal share of title IV-A benefit costs)	$259,113,000	+$48,742,000
2. Increase in medical assistance (and related administrative) costs due to change to an 18-month all-RCA program (i.e., the normal Federal share of title XIX benefit costs)	259,113,000	+30,237,000
Subtotal		+$78,979,000
Total increases		+$95,702,000
Decreases:		
Program changes:		
1. Reduction of ORR staff by 7 FTEs	$ 6,130,000	-$200,000
2. Reduction in payments to States for cash and medical assistance (and related administrative) costs reflecting an 18-month period of eligibility	259,113,000	-30,438,000

Refugee and Entrant Assistance

Summary of Changes

	1986 base	Change from base
3. Reduction of Federal matching rate for voluntary agency program phaseout	$ 3,828,000	-$2,828,000
4. Savings from implementation of shared living arrangements benefit adjustment	259,113,000	-4,750,000
5. Decrease in refugee utilization of social services	44,802,000	-1,500,000
6. Program savings from demonstration projects implemented under authority of the Wilson-Fish Amendment	259,113,000	-3,000,000
7. Reduction due to change in New York State unaccompanied minors benefit rate	259,113,000	-900,000
Total decreases		-$43,616,000
Net change		+$52,086,000

Refugee and Entrant Assistance

Budget Authority by Activity

	1986 Appropriation	1986 Available after Sequestering	1986 Revised	1987
1. State Administered Programs				
(a) Cash/medical/admin	$270,756,000	$259,113,000	$259,113,000	$309,757,000
(b) Social services	71,700,000	68,617,000	44,802,000	46,803,000
Subtotal, State Admin. Prog ..	342,456,000	327,730,000	303,915,000	356,560,000
2. Targeted Assistance	50,000,000	47,850,000	---	---
3. Education Assistance	16,600,000	15,886,000	---	---
4. Preventive Health	8,400,000	8,039,000	8,039,000	10,355,000
5. Voluntary Agency Programs .	4,000,000	3,828,000	3,828,000	1,000,000
6. Federal Administration	6,405,000	6,130,000	6,130,000	6,083,000
Total	$427,861,000	$409,463,000	$321,912,000	$373,998,000

NOTES

1(a). FY 1987 request includes amounts previously funded through appropriations under title IV-A and title XIX of the Social Security Act.

1(b). Reflects a proposed rescission of $23,815,000 for Social Services.

2. Reflects a proposed rescission of $47,850,000 for Targeted Assistance.

3. Reflects a proposed rescission of $15,886,000 for Education Assistance.

Refugee and Entrant Assistance

Budget Authority by Object

	1986 Appropriation	1986 Current Estimate	1987 Estimate
Total number of full-time permanent positions	84	84	77
Total compensable workyears:			
Full-time equivalent employment .	84	84	77
Full-time equivalent of overtime and holiday hours	---	---	---
Average ES salary	$66,200	$66,200	$66,200
Average GM/GS grade	13/5	13/5	13/5
Average GM/GS salary	$43,100	$43,100	$43,700
Personnel compensation:			
Full-time permanent	$ 2,700,000	$ 2,584,000	$ 2,500,000
Other than full-time permanent ...	900,000	861,000	850,000
Other personnel compensation	40,000	38,000	40,000
Subtotal, personnel compensation ...	3,640,000	3,483,000	3,390,000
Personnel benefits	400,000	383,000	373,000
Travel & transportation of persons .	345,000	330,000	375,000
Transportation of things	1,000	1,000	1,000
Rental charges to GSA (rent)	363,000	347,000	370,000
Rental payments to others	1,000	1,000	1,000
Communication, utilities and miscellaneous charges	140,000	134,000	150,000
Printing and reproduction	7,000	7,000	7,000
Other services	3,568,000	3,415,000	4,344,000
Supplies and materials	15,000	15,000	15,000
Equipment	25,000	24,000	25,000
Grants, subsidies and contributions	419,356,000	313,772,000	364,947,000
Total, budget authority by object	$ 427,861,000	$ 321,912,000[1]	$ 373,998,000

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[1] Reflects a reduction of $18,398,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177, and a proposed rescission of $87,551,000.

Significant Items in House and Senate Appropriation Committee Reports

Item	Action Taken or to be Taken
1986 Continuing Resolution - Senate Report	
1. The Committee concurs with the House recommendation of $4,000,000 for the voluntary agency matching grant program. In view of the success of the matching grant program the Committee does not concur in the administration's proposed reductions for fiscal 1986. It is the intent of the Committee that the size of the caseload participation in the program not be reduced and that the Federal match remain at its existing level of a $1,000 maximum per refugee.	1. The Continuing Resolution (P.L. 99-190) provides $4,000,000 for the voluntary agency matching grant program. In compliance with the provisions of the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177, the funding for this activity in FY 1986 will be reduced $172,000, which will reduce funding per refugee.

Authorizing Legislation

	1986 Amount Authorized 1/	1986 Current Estimate 2/	1987 Amount Authorized 3/	1987 Budget Request
1. State Administered Prog.- Section 412 of title IV of the Immigration and Nationality Act, and Section 501 of title V of the Refugee Education Assistance Act of 1980	$ 342,456,000	$ 303,915,000		$ 356,560,000
2. Targeted Assistance- Section 412 of title IV of the Immigration and Nationality Act, and Section 501 of title V of the Refugee Education Assistance Act of 1980 ..	$ 50,000,000	$ ---		$ ---
3. Education Assistance - Section 412 of title IV of the Immigration and Nationality Act and Section 501 of title V of the Refugee Education Assistance Act of 1980 ..	$ 16,600,000	$ ---		$ ---
. Preventive Health - Section 412 of title IV of the Immigration and Nationality Act	$ 8,400,000	$ 8,039,000		$ 10,355,000
5. Voluntary Agency Prog.- Section 412 of title IV of the Immigration and Nationality Act	$ 4,000,000	$ 3,828,000		$ 1,000,000
6. Federal Administration- Section 412 of title IV of the Immigration and Nationality Act, and Section 501 of title V of the Refugee Education Assistance Act of 1980 ..	$ 6,405,000	$ 6,130,000		$ 6,083,000
Total Appropriation	$ 427,861,000	$ 321,912,000		$ 373,998,000

1/ Amounts authorized under the FY 1986 Continuing Resolution (P.L. 99-190).

2/ Reflects a reduction of $18,398,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177, and a proposed rescission of $87,551,000.

3/ Current authorization expires September 30, 1986. Reauthorization is required.

Refugee and Entrant Assistance

Table of Estimates and Appropriations

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1978 1/	$ 191,700,000	$ 191,700,000	$ 200,200,000	$ 195,950,000
1979	207,464,000	207,464,000	200,264,000	235,264,000 2/
1980	516,981,000	516,900,000	516,900,000	516,900,000
1981	950,557,000	901,652,000	901,652,000	901,652,000
1982	683,705,000	669,797,000	669,797,000	689,747,000
1983	532,152,000	532,152,000	532,152,000	585,000,000
1984	485,328,000	541,761,000	541,761,000	541,761,000
1985	359,512,000	444,372,000	444,372,000	444,372,000
1986 3/	316,587,000	---	---	427,861,000
1986 Sequester	-18,398,000			
1986 Proposed Rescission	-87,551,000			
1987	373,998,000			

1/ Prior to 1979, funds for the Cuban and Indochinese refugee programs were provided under separate appropriations. For comparison purposes, this table combines the separate Cuban and Indochinese appropriations.

2/ Includes $20,000,000 for the Soviet and Other Refugee program, which was appropriated as part of the 1979 Foreign Assistance and Related Programs Appropriation Act. This Act required that funds be expended only by the Department of Health, Education, and Welfare (now Health and Human Services).

3/ A regular appropriation for Refugee and Entrant Assistance was not enacted by the Congress. The program is continued under a continuing resolution (P.L. 99-190).

Refugee and Entrant Assistance

Account Summary

	1985	1986	1987
State Administered Programs:			
Cash Assistance	$ 159,826,000	$ 142,728,000	$ 168,967,000
Medical Assistance	87,331,000	82,587,000	93,316,000
State Administration	40,000,000	33,798,000	47,474,000
Subtotal, CMA	287,157,000	259,113,000	309,757,000
Social Services	71,700,000	44,802,000	46,803,000
Total, State Adm. Prog...	358,857,000	303,915,000	356,560,000
Targeted Assistance	50,000,000	---	---
Education Assistance	16,600,000	---	---
Preventive Health 1/	8,400,000	8,039,000	10,355,000
Voluntary Agency Programs ...	4,000,000	3,828,000	1,000,000
:deral Administration	6,515,000	6,130,000	6,083,000
Total, Refugee and Entrant Asst. budget authority ..	$ 444,372,000	$ 321,912,000 2/3/	$ 373,998,000

1/ Excludes 40 FTEs in the Public Health Service budget that are supported by these funds through a reimbursable agreement.

2/ Reflects a reduction of $18,398,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177, and a proposed rescission of $87,551,000 (consisting of $23,815,000 in social services, $47,850,000 in targeted assistance and $15,886,000 in education assistance).

3/ Authorization for the Refugee Resettlement program expired September 30, 1983. The program in FY 1986 is operating under authority of the Continuing Resolution (P.L. 99-190).

GENERAL STATEMENT

The Refugee Assistance program is designed to assimilate refugees and Cuban and Haitian entrants into American society as quickly and effectively as possible. The program provides two basic functions. First, it has made payments to States for the normal State share of AFDC and Medicaid benefits for eligible refugees and entrants. Second, it provides some special services, such as English language and vocational training. The purpose of these activities is to ease the refugees' and entrants' adjustment to American society and to allow them to become independent and self-sufficient in the shortest time possible.

The President's appropriation request of $373,998,000 for this account assumes Congressional reauthorization of the refugee and entrant program.

Budget Policy

The FY 1987 refugee budget request assumes the following actual admissions and estimated authorized ceilings for refugees:

1985 Actual	1986 Estimate	1987 Estimate
67,627	67,000	68,000

In FY 1986, ORR provided Federal funding to States for the normal State share of assistance paid to refugees categorically eligible for AFDC, Medicaid, and SSI. These payments were available to States for cost incurred during an initial 31-month period after a refugee's or entrant's arrival in the U.S. ORR also provided special funding for cash and medical assistance for needy refugees and entrants not qualified for categorical assistance during an initial 18-month period after arrival, and during an additional 13-month period of assistance provided under a State/local General Assistance program. Treatment on the basis of categorical eligibility will be discontinued in FY 1987 in favor of a more uniform and equitable policy for refugee/entrant cash and medical assistance.

In FY 1987 funding will continue to be available for special cash and medical assistance for all needy refugees/entrants for an initial 18 months after arrival in the U.S. In addition, benefits during this period that are currently funded through the AFDC and Medicaid programs would instead be consolidated into this account. Federal funding will also continue for States' supplementation of SSI benefits during this period. Federal funding will continue to be made available for unaccompanied minors until they reach the age of majority (18, or higher in States where statutory or regulatory authority permits the age of majority to be extended to cover special programs or services required by such minors prior to their emancipation). These policies alter the funding mechanism for refugee cash and medical assistance without changing the level of assistance available to resettling refugees and entrants.

The FY 1987 budget request continues to provide Federal funding for refugee social services, targeted specifically on those activities which help achieve self-sufficiency. These include employment and skills training, job placement, and classes in English as a second language, as well as the related administrative costs for all refugee/entrant assistance and services under this activity.

Program Accomplishments

Title IV of the Immigration and Nationality Act and Section 501 of the Refugee Education Assistance Act of 1980 (P.L. 96-422) authorize a comprehensive program of cash and medical assistance and social services for refugees and Cuban and Haitian entrants. By the end of fiscal year 1985, 49 States, the District of Columbia, and Guam had approved State plans for refugee resettlement.

Through the end of FY 1985, approximately 200,000 individuals with refugee/entrant status have been resettled in the United States since 1982. As of the end of the fourth quarter of FY 1985, the refugee domestic assistance dependency rate was 52.4 percent. ORR projects that this rate will level off and remain at the 52 percent level in FY 1987. ORR will continue to emphasize its initiatives to further promote economic self-sufficiency and discourage refugee dependency on State welfare systems.

ORR completed its review of FY 1985 State Plan Amendments from those States in which material changes in the content and scope of the State administration of the refugee program occurred during FY 1984. The State Plan Amendment submission, review, and acceptance process has been and will be conducted on an annual basis to provide ORR with updated and accurate State Plan documents, assuring that the States are in full compliance with Federal regulations, policies, and guidelines.

ORR's monitoring and technical assistance efforts have helped to improve the quality and completeness of State reporting on program performance through the Quarterly Performance Reports (Form ORR-6) under the State-administered refugee resettlement program. By the end of FY 1985, program information and data submitted by the majority of States have presented a more complete picture of the many aspects of ORR-funded refugee resettlement programs throughout the country. Monitoring emphasis was provided by ORR to assure that States observed the Director's Goals, Standards, and Priorities by allocating at least 85% of their ORR-funded social services funds to priority service areas such as employment, English language training, and case management services. ORR requires that major States with significant dependency rates allocate funds to services most likely to impact on these rates.

A revised State Estimate Reporting Form (Form ORR-1) has been implemented to allow ORR to work more closely with States in the planning cycle of social service programming. In reviewing FY 1986 State estimates (which will incorporate social service data for the first time), ORR will be able to determine the potential impact of services in assisting refugees to achieve early economic self-sufficiency.

ORR continued efforts in FY 1985 to mainstream the provision of services to refugees by actively pursuing with other Federal agencies and programs the inclusion of refugees as part of their client system. Two major initiatives in this regard for FY 1985 were agreements with the U.S. Public Health Service and with the National Governors' Association (NGA) as follows:

- In FY 1984, the ORR Director created an interagency workgroup [ORR, the National Institute of Mental Health (NIMH) and the Office of Refugee Health (ORH)] to conceptualize and plan comprehensive mental health system improvement for refugees. In FY 1985, ORR entered into an interagency agreement with ORH and, through ORH, with NIMH to implement this initiative. The first part of the initiative consisted of a cooperative effort between the Federal Government and 13 State mental health agencies to stimulate and assist these agencies to assume leadership in promoting service system improvements for refugees. The second part was the establishment, by contract, of a national refugee mental health resource development and technical assistance center.

- ORR continued its cooperative relations with NGA through an agreement to use NGA's technical assistance capacity to develop guidelines for national employment standards for the refugee program. The project began in fiscal year 1984 and will extend over a three-year period, with voluntary State agency implementation of employment standards commencing in FY 1987.

Under the Targeted Assistance program, 46 counties in 21 States and the District of Columbia received supplemental funding based on a sudden surge in refugee/entrant populations, creating high concentrations of refugees/entrants, and potentially high use of public assistance. For fiscal years 1983-1985, over $200 million was appropriated to stimulate economic self-sufficiency and reduced welfare dependency among refugees and entrants.

ORR has assured prudent and effective management of local plans and enhanced accountability of Targeted Assistance program outcomes. Program reporting requirements were revised in FY 1984 to assure adequate documentation of program outcomes for all service components. Detailed monitoring guidelines were developed for use by ORR staff to assess specific service strategies. Technical assistance has been provided by both Central Office and Regional Office staff to State and County administrators as well as to service providers. Reviews of selected local targeted areas have led to recommendations for corrective actions to improve program effectiveness.

During FY 1985, ORR conducted on-site monitoring reviews of its Voluntary Agency grantees to assure that the program guidelines adopted in FY 1984 were being correctly implemented and to determine whether the requirements outlined in the guidelines were serving the intended purpose. ORR found that the guidelines had been properly implemented and that the participating agencies were able to demonstrate positive results in obtaining early employment for refugees. Specific monitoring findings were communicated in writing to each grantee, and a meeting was held with all the agencies to discuss monitoring findings and recommendations.

Under ORR's Preventive Health activity, the Public Health Service (PHS) continued in FY 1985 to monitor overseas medical screening of refugees, to inspect refugees and their medical records at United States ports of entry, to notify State and local health departments of each arriving refugee, to maintain a computerized data base on all arriving refugees, and to administer a grant program which provides funds to State and local health departments for health assessments for new refugee arrivals and secondary migrants.

During FY 1985, measures were continued by PHS to strengthen the overseas medical screening program for refugees arriving from Europe, the Near East, Africa, and South Asia. Tuberculin skin testing was instituted for selected Southeast Asian groups, and those with reactive skin tests were placed on preventive therapy. The Centers for Disease Control, a PHS agency, intensified tuberculosis preventive treatment activities in the United States by assigning five public health advisors and providing additional grant funds for tuberculosis preventive therapy in highly impacted areas. In addition, overseas screening activities for hepatitis B surface antigen among pregnant females and unaccompanied minors were continued as revised and augmented in FY 1984.

A Sentinel project, initiated in FY 1984, was continued in the United States to monitor health conditions of refugees arriving from the Philippine Refugee Processing Center. Special initiatives were continued in FY 1985 in areas such as mental health and health education, and a cardiopulmonary resuscitation instructor training program was continued for Laotian Hmong refugees in order to assist in preventing deaths from Sudden Unexplained Nocturnal Death Syndrome (SUNDS).

On June 11, 1985, ORR issued an announcement for demonstration projects to be funded under the authority of the Wilson-Fish Amendment. These projects are for the purpose of reducing public assistance dependency among refugees by promoting refugee employment at the earliest time possible and by funding new and innovative alternatives for the provision of cash assistance, medical assistance, social services, and/or case management to refugees. Two grants were awarded under this authority in FY 1985:

(i) A three-year statewide project for California to serve refugees who would otherwise receive AFDC benefits under the basic requirements of the Refugee Cash Assistance Program. The purpose of the demonstration is to test whether removal of cash assistance barriers to employment will result in more refugees becoming employed and the effect of that employment on self-sufficiency.

(ii) A three-year project in Oregon to support an alternate cash and medical assistance program for Refugee Cash Assistance recipients residing in the greater Portland area. The purpose of the project is to test whether the integration of assistance payments and social services in a program run by the private sector will result in earlier self-sufficiency for refugees.

ORR allocated the bulk of its FY 1985 discretionary social services funds to an initiative called the Comprehensive Discretionary Social Services (CDSS) Program and awarded grants for 34 service components in 16 States. In prior years, ORR discretionary social service funding had been allocated separately in a variety of areas--Highland Lao Initiative, Training Enhancement, Multiple Wage Earners, and others--necessitating separate time-consuming applications for each area in which a State wished to compete. Under CDSS, States analyzed current social service efforts, identified unmet needs, and prepared only one comprehensive application to address the needs deemed most urgent.

In FY 1982, ORR initiated the Mutual Assistance Associations (MAA) Incentive Grants Program to strengthen MAAs' capacity as a resource and participant in the resettlement process, to increase the role of MAAs in providing social services, and to bring States into the process of funding MAAs as service providers. Approximately $7.7 million has been allocated to States based on a three-year proportionate population formula. Since FY 1982, the number of States participating in the MAA incentive grant program has increased from twelve to forty-three (including the District of Columbia). Seventy-eight MAAs received contracts from their States for the provision of priority social services in FY 1985.

In FY 1985, ORR awarded a national contract to provide technical assistance and training to funded MAAs and potentially fundable MAAs. The goal of the project is to enhance the capacity of MAAs nationwide to manage social services programs, to develop their capacity as trainers, and to develop and access private sector resources for the provision of social services to refugees/entrants. Through the project, the extensive experience and knowledge of estab'ished MAAs and mainstream social services providers will be tapped to assist MAAs in the rudiments of grants/contracts management, social service delivery skills, and resource and leadership development. Individuals from established MAAs will provide the training and technical assistance. This will enable the creation of a resource pool of trainers who can be made available for training of MAAs in subsequent years.

In FY 1983, ORR initiated a Favorable Alternate-Sites Program (FASP) and Planned Secondary Resettlement (PSR). ORR provided additional funds to Arizona, North Carolina and Virginia to identify and test resettlement sites which are suitable alternatives to communities with unfavorable resettlement conditions. The FASP program was modified in FY 1985 to provide for nearly three years of continuous funding to sites, if warranted by performance under the initial grants and if the participant States wished to expand their resettlement capacity.

A PSR notice was published in the Federal Register in FY 1985 to expand eligible grantees to include public and private non-profit organizations in addition to States. In FY 1985, two planning grants were awarded to two Hmong MAAs to plan for the relocation of refugees from impacted areas to Dallas, Texas and Atlanta, Georgia in FY 1986.

ORR's Mainstream English Language Training (MELT) initiative to formulate standards for ORR-funded adult refugee English language training programs consists of several phases, namely: research; field testing and materials development; dissemination; and implementation of guidelines for standards. Seven national projects (funded in Fiscal Years 1983-1984) field-tested and developed an ORR Competency-Based MELT Resource Package.

In FY 1985, ORR began the dissemination phase of the MELT initiative through a national contract. The primary goal of the project is to provide technical assistance and training to State Refugee Coordinators, English language trainers, vocational English language training (VELT) providers, and employment service providers with the skills to effectively utilize, implement and/or adapt the MELT resource package in language instruction to refugees/entrants. The effective utilization of the MELT Resource Package will result in increased accountability of language training programs, rapid student movement from one instructional level to the next, and a more reliable basis for program monitoring and evaluation.

During FY 1984, ORR provided funding for the development of a VELT resource package to address the employability needs of refugees/entrants. The VELT resource package is beneficial to service providers and state refugee coordinators because it contains an employment-focused, comprehensive design which facilitates program planning, development, and implementation. It also describes a valuable approach for training refugees/entrants to become more competitive, flexible, and adaptable in the U.S. job market. The package promotes networking and creating greater linkage and coordination among English language training (ELT), VELT, employment, and support service providers, which will foster creative programming to meet the employment needs of refugees/entrants, employers and the community. ORR plans to disseminate the VELT resource package in FY 1986 through the provision of technical assistance and training to English language trainers, employment service providers, and State refugee coordinators.

ORR's FY 1985 program evaluation activities have included the following:

- Publication and distribution of ten reports resulting from a study of the resettlement experience of Hmong refugees in a broad range of communities across the United States. Seven of the reports are on each of 7 different Hmong communities studied in some depth. One report describes 28 different projects in the Hmong communities studied, which are of special interest to resettlement workers, refugees, and policy makers. Another of the reports describes the experiences of 23 economic development and employment projects with some additional data on another 55 ventures in Hmong communities. The last report summarizes overall findings. These reports provided information which has helped ORR in considering initiatives relating to the Hmong and to economic development projects for refugees.

- Completion of an evaluation of ORR's Highland Lao Initiative Grants. The final report from this evaluation has not yet been published, but findings have been available to assist in planning for continued social services strategies for Hmong communities.

- Completion of a study of case management. This study was undertaken to bring clarity of definition to the concept of case management, to understand the existing practices in case management -- as well as their ramifications -- and to make recommendations on actions needed for the concept of case management to realize its potential as a tool in helping refugees become self-sufficient. The final report from this study will be used in follow-up activities by ORR to see how recommendations from the study can or should be implemented.

- Completion of Phase I of an evaluation of the Targeted Assistance Grants Program (TAP). This evaluation examines the relationship between employment outcomes of a sample of TAP-funded services programs and numerous program variables. The study also examines issues of program compliance and performance relative to ORR guidelines and objectives set by the projects and States.

- Completion of a study of refugee medical services enrollment and utilization in California, Tennessee, and New York. This study will provide key information to planners considering special medical services arrangements as part of demonstration projects under the authority of the Wilson-Fish Amendment to the Immigration and Nationality Act.

ORR's statistical file capabilities have been further expanded and improved during FY 1985. Special projects were mounted to collect data in compliance with statutory requirements for regular reporting and special studies. They include the following:

- The Thirteenth Survey of Southeast Asian refugees was carried out by telephone in October 1984. Key findings were reported in ORR's January 1985 Report to the Congress.

- ORR implemented the use of input from the Department of State's Automated Visa Lookout System (AVLOS), which provides information on arriving refugees earlier and in a more automated form than other input sources.

- ORR continued development of the Permanent Resident Alien subsystem. This data system is required for storage and analysis of information collected when refugees adjust to permanent resident alien status, as specified in the Refugee Act.

- ORR developed a new set of county-level statistical reports to be used in administering and assessing local programs such as Targeted Assistance.

- ORR continued an interagency agreement with IRS, under which ORR receives data on aggregated earnings reported and taxes paid by Southeast Asian refugees. Additional analysis of this longitudinal data series showed continued improvement in refugee earnings.

State Administered Programs

Authorizing Legislation - Section 412 of Title IV of the Immigration and Nationality Act and Section 501 of Title V of the Refugee Education Assistance Act of 1980.

Budget Authority:

	1986 Appropriation 1/		1986 Available After Sequestering		1986 Current Estimate		1987		Increase or Decrease	
	FTE	BA	FTE	BA	FTE	BA	FTE	BA	FTE	BA
Cash Assistance	-	$ 149,141,000	-	$ 142,728,000	-	$ 142,728,000	-	$ 168,967,000	-	+$26,239,000
Medical Assistance	-	86,298,000	-	82,587,000	-	82,587,000	-	93,316,000	-	+10,729,000
State Administration ...	-	35,317,000	-	33,798,000	-	33,798,000	-	47,474,000	-	+13,676,000
Subtotal, CMA	-	270,756,000	-	259,113,000	-	259,113,000	-	309,757,000	-	+50,644,000
Social Services	-	71,700,000	-	68,617,000	-	44,802,000	-	46,803,000	-	+ 2,001,000
Total, State Admin. Programs	-	$ 342,456,000	-	$ 327,730,000	-	$ 303,915,000	-	$ 356,560,000	-	+$52,645,000

1/ Authorization of the Refugee Resettlement program expired September 30, 1983. The program is operating under authority of the Continuing Resolution (P.L. 99-190).

Purpose and Method of Operations

This activity provides Federal funds for special cash and medical assistance provided under State administered programs to eligible refugees/entrants and for employment-related social services made available to all refugees and entrants. The entire cost of special cash and medical assistance for refugees/entrants during the first 18 months in this country will be borne by the Federal government. Funds will also be provided to pay the State's share of costs on behalf of refugees/entrants receiving benefits under the SSI program during the first 18 months. This activity also provides funds for services to refugee/entrant unaccompanied minors under the age of majority (18 or higher, in certain localities), as well as the related administrative costs associated with refugee/entrant assistance and services under this activity.

Rationale for the Budget Request

The FY 1987 budget request is based on current projections of authorized FY 1986 and FY 1987 ceilings, along with FY 1985 actual arrivals who are eligible for benefits in FY 1987. The following table presents the projected population eligible for special refugee assistance:

	Year of Entry		
	1985 Actual	1986 Estimate	1987 Estimate
Southeast Asians	49,756	45,500	45,500
All Others (excluding matching grant refugees)	13,871	17,500	18,500
Total:	63,627	63,000	64,000

Targeted Assistance

Authorizing Legislation - Section 412 of Title IV of the Immigration and Nationality Act and Section 501 of Title V of the Refugee Education Assistance Act 1980.

Budget Authority:

1986 Appropriation 1/	1986 Available After Sequestering	1986 Current Estimate	1987	Increase or Decrease
$50,000,000	$47,850,000	$ ---	$ ---	$ ---

Purpose and Method of Operations

This activity provided funding to the States for a program of flexible, targeted assistance. Funds were used to assist refugee/entrant populations in areas where supplementation of available resources appeared necessary due to the one-time high concentration of refugees and entrants.

Rationale for the Budget Request

This program was initiated in FY 1982 as impact aid to assist areas where the numbers of refugees and entrants overwhelmed the limited service capacity. These refugees and entrants have now been in the U.S. for five to eight years, and most are productive tax-paying members of their communities. The lower and more stable arrival rates of recent years will enable communities to absorb the reduced rates of current arrivals.

The total appropriated through FY 1983-1985 exceeded $200 million and will continue assistance through March 1987. No funding is being requested for FY 1987. The major problems of impact have been addressed, and normal social services allocations will be sufficient to meet refugee service needs.

1/ Authorization for the Refugee Resettlement program expired September 30, 1983. The program in FY 1986 is operating under authority of the Continuing Resolution (P.L. 99-190).

Education Assistance

Authorizing Legislation - Section 412 of Title IV of the Immigration and Nationality Act and Section 501 of Title V of the Refugee Education Assistance Act of 1980.

Budget Authority:

1986 Appropriation 1/	1986 Available After Sequestering	1986 Current Estimate	1987	Increase or Decrease
$16,600,000	$15,886,000	$ ---	$ ---	$ ---

Purpose and Method of Operations

This activity provides for grants to school districts which have large numbers of refugee children. The grants help the schools develop initial special curriculum materials, bilingual teachers and aides, remedial classes, and guidance and counseling required to bring these children into the mainstream of the American education system. The program has been administered by the Department of Education via an interagency agreement with the Department of Health and Human Services.

Rationale for the Budget Request

In view of the full development of the capacity to assimilate refugee children into local educational systems, no funds are being requested for FY 1987. The program for education assistance was initiated in FY 1980 to relieve local school districts of the initial cost of meeting special needs of refugee children. Since FY 1980, over $100 million has been appropriated and awarded to aid refugee children. Current refugee resettlement emphasizes family reunification. Thus, incoming refugees are settling in communities which have been dealing with these children since 1975 and where the capacity necessary to meet the childrens' needs has already been built.

1/ Authorization for the Refugee Resettlement program expired September 30, 1983. The program in FY 1986 is operating under authority of the Continuing Resolution (P.L. 99-190).

Preventive Health

Authorizing Legislation - Section 412 of Title IV of the Immigration and Nationality Act.

Budget Authority:[1]

1986 Appropriation	1986 Available After Sequestering	1986 Current Estimate	1987	Increase or Decrease
$8,400,000	$8,039,000	$8,039,000	$10,355,000	+$2,316,000

Purpose and Method of Operations

This activity provides Federal funding to insure that refugee health screening, examinations, and subsequent notification procedures performed for refugees are consistent with the recommended guidelines of the Centers for Disease Control (CDC). In addition, the program seeks to prevent and control health problems of public health significance among refugees and to improve the general health status of the refugee population through health assessment and referral, emphasizing identification and prevention of those problems which prevent economic self-sufficiency. The monitoring of overseas health screening, examination, and immunization of refugees and the port of entry review of records and notification of health agencies will be performed by CDC, which will provide consultation for disease outbreaks and technical quality control in refugee camps and other locations. CDC staff also will forward to State and local health departments the medical records of refugees destined for resettlement in their areas, inspect medical documentation at U.S. ports of entry and advise the health department so those refugee arrivals who may have public health conditions requiring medical follow-up may be treated. For health assessments and referral, grants will be awarded to State and selected metropolitan public health agencies, which will provide health assessments and other services to refugees.

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[1] Authorization for the Refugee Resettlement program expired September 30, 1983. The program is operating in FY 1986 under authority of the Continuing Resolution (P.L. 99-190). There are 40 reimbursable FTE positions for this activity in FY 1986 and FY 1987. The positions are reflected in the budget request for the Public Health Service.

Rationale for the Budget Request

The FY 1987 budget request for screening and domestic health assessments and referral is based on the following assumptions:

(i) At least 85% of FY 1987 non-matching-grant-assisted refugee arrivals (54,400 of 64,000) will receive a public health and personal health assessment, and approximately 19,200 additional assessments will be provided to secondary migrants, for a total of 73,600 health assessments.

(ii) Southeast Asian refugees with active tuberculosis (TB) will start and complete chemotherapy at overseas locations.

(iii) Those refugees identified as being TB-infected and eligible for preventive treatment will be started on therapy and followed up to the fullest extent feasible. Local disease control capabilities will also be reinforced, especially in the areas of TB control, therapy, and follow-up.

(iv) Overseas medical processing of refugees in Europe, Africa, and Western Asia will be strengthened to conform to procedures used in Southeast Asia, and CDC will institute quality assurance activities similar to those currently used in Southeast Asia.

Voluntary Agency Programs

Authorizing Legislation - Section 412 of Title IV of the Immigration and Nationality Act.

Budget Authority:

1986 Appropriation 1/	1986 Available After Sequestering	1986 Current Estimate	1987	Increase or Decrease
$4,000,000	$3,828,000	$3,828,000	$1,000,000	$2,828,000

Purpose and Method of Operations

The activity provides an alternative Federal program of assistance and/or services to needy refugees eligible for aid under matching Federal grants to Voluntary Agencies. The Voluntary Agencies are committed to providing the refugees with four months of cash and medical assistance and support services; e.g., case management services, English language training, job placement, acculturation, professional recertification training, and other social services.

Rationale for the Budget Request

The Office of Refugee Resettlement estimates that approximately 4,000 refugees arriving in FY 1987 will qualify to participate in this program. For FY 1987, ORR proposes to decrease the Federal matching payment to $250 per refugee to further stimulate and encourage greater private sector financing. This program originated as an alternative initial resettlement approach for Soviet and East European refugees during a one-time surge of high arrival rates in 1979 and 1980. The request reflects a policy to phase out Federal matching assistance over a two-year period in favor of strengthening and consolidating initial resettlement activities in voluntary agencies either under cooperative agreements with the Department of State or through support entirely from the private sector.

1/ Authorization for the Refugee Resettlement Program expired September 30, 1983. The program in FY 1986 is operating under authority of the Continuing Resolution (P.L. 99-190).

Federal Administration

Authorizing Legislation - Section 412 of Title IV of the Immigration and Nationality Act and Section 501 of Title V of the Refugee Education Assistance Act of 1980.

Budget Authority:

	1986 Appropriation 1/	1986 Available After Sequestering	1986 Current Estimate	1987	Increase or Decrease
	$6,405,000	$6,130,000	$6,130,000	$6,083,000	-$47,000
(FTE)	(84)	(84)	(84)	(77)	(-7)

Purpose and Method of Operations

The Refugee Act of 1980 established the Office of Refugee Resettlement (ORR) in the Department of Health and Human Services. This Office is responsible for managing the Federal Refugee and Cuban/Haitian Entrant Domestic Assistance programs. Federal administration is necessary in order to provide program direction, monitoring, and technical assistance to States and voluntary refugee resettlement agencies; to provide for the interpretation and development of Federal regulations, policies, and procedures; and to administer the annual Federal appropriations for refugee/entrant assistance.

Rationale for the Budget Request

For FY 1987, ORR staffing will be at 77 FTEs, a reduction of 7 from the FY 1986 level. The FY 1987 budget request is based upon the agency's statutory responsibilities for program development and direction, program and fiscal monitoring, data collection, and continued national initiatives for more effective and efficient refugee resettlement. In addition, ORR expects to fund additional demonstration projects under the Wilson-Fish Amendment, as well as other demonstration projects, which will require on-going Federal technical assistance, monitoring, and evaluation activities.

1/ Authorization of the Refugee Resettlement program expired September 30, 1983. The program is operating under authority of the Continuing Resolution (P.L. 99-190).

Specifically, this request will support the following on-going Federal activities and responsibilities:

1. Develop policies and standards for refugee domestic assistance; maintain inventory of private sector resources and establish linkages with other Federal agencies with programs for which refugees are eligible as a means of maximizing efficient utilization of all available resources by the resettlement system.

2. Grant and control funds provided to States, voluntary agencies, and others involved in refugee resettlement programs.

3. Collect and analyze data on refugees in support of ORR's policymaking, operational, and reporting requirements.

4. Provide guidance and interpretation on all refugee domestic assistance matters--law, regulations, and policy.

5. Work with States to prepare State plans or State plan amendments. Review and approve or disapprove plans or amendments submitted. Review, evaluate, and monitor State refugee programs to assure compliance with State plans. Receive and review reports as required under the Refugee Act. Monitor State coordination of cash and medical assistance with support services to ensure effective refugee resettlement and the rapid achievement of economic self-sufficiency.

6. Assure that States convene local consultation meetings at least quarterly, unless otherwise waived by ORR, to provide a forum for representatives of voluntary agencies, of States, and of local governments to plan for and coordinate the apppropriate placement of refugees. Perform assessments to support effective Federal refugee placement policies.

7. Monitor and perform reviews of State programs and financial management systems. The basis for program monitoring will be each State's report (and subsequent revisions) on the intended uses of grant funds, including information on the types of activities to be supported and the estimated numbers and categories or characteristics of individuals to be served. Approval will be exercised for activities on which the director must make a decision under the Refugee Act.

8. Work to develop more in-depth analysis of data as a basis for providing information to the Congress; to increase and improve consultation with State and local governments; and to improve monitoring of such program areas as unaccompanied minors.

9. Manage and coordinate programmatic activities designed to improve delivery by States and local service providers of priority social services (i.e., employment and English language training) through:

   (i) The identification and analysis of state-of-the-art practices in each priority service area;

(ii) The development and dissemination of services standards, profiles, characteristics, and models;

(iii) The provision of professional and technical consultation to facilitate efficient transfer of program knowledge; and

(iv) The maintenance of a national information network on State program policies, trends, and systems development.

10. Work to ensure cost-effective coordination between the overseas and domestic ESL and cultural orientation services programs.

11. Respond to requests for information and technical assistance from States, communities, other Federal agencies, national organizations, and private sector funding resources.

12. Implement, monitor and evaluate national demonstration projects under the Wilson-Fish Amendment for alternative approaches which may better promote refugee/entrant early employment and self-sufficiency.

13. Collect and analyze aggregate data on the earnings of different refugee cohorts in collaboration with the Internal Revenue Service to document the process and extent of refugee self-sufficiency.

Refugee and Entrant Assistance

SUMMARY STATE TABLE

State	1985 Actual	1986 Estimate	1987 Estimate
TOTAL	$475,082,000	$325,008,000	$373,998,000
Alabama	$ 973,000	$ 595,000	$ 796,000
Arizona	2,986,000	2,660,000	3,011,000
Arkansas	420,000	309,000	354,000
California	190,412,000	126,456,000	148,445,000
Colorado	4,583,000	3,523,000	4,001,000
Connecticut	4,303,000	3,689,000	4,147,000
Delaware	48,000	18,000	21,000
Dist. of Col.	7,436,000	6,766,000	5,820,000
Florida	25,563,000	2,757,000	2,858,000
Georgia	5,824,000	4,245,000	5,348,000
Guam	---	---	---
Hawaii	2,954,000	2,290,000	2,680,000
Idaho	1,145,000	884,000	1,085,000
Illinois	19,738,000	12,767,000	14,431,000
Indiana	671,000	547,000	604,000
Iowa	4,363,000	3,717,000	4,349,000
Kansas	4,521,000	2,949,000	3,285,000
Kentucky	716,000	498,000	584,000
Louisiana	3,397,000	2,104,000	2,303,000
Maine	1,214,000	1,035,000	1,162,000
Maryland	4,480,000	3,241,000	3,453,000
Massachusetts	20,744,000	16,206,000	18,400,000
Michigan	4,790,000	3,864,000	4,464,000
Minnesota	16,307,000	11,622,000	13,712,000
Missouri	2,623,000	1,640,000	2,082,000
Mississippi	779,000	608,000	740,000
Montana	251,000	215,000	237,000
Nebraska	683,000	559,000	617,000
Nevada	669,000	536,000	590,000
New Hampshire	542,000	469,000	528,000
New Jersey	6,175,000	3,674,000	4,124,000
New Mexico	469,000	415,000	466,000
New York	42,835,000	37,811,000	41,588,000
North Carolina	1,802,000	1,344,000	1,477,000
North Dakota	594,000	509,000	571,000

Refugee and Entrant Assistance

SUMMARY STATE TABLE

State	1985 Actual	1986 Estimate	1987 Estimate
Ohio	4,892,000	3,923,000	4,521,000
Oklahoma	1,828,000	1,416,000	1,544,000
Oregon	14,106,000	8,910,000	12,425,000
Pennsylvania	9,161,000	6,232,000	6,840,000
Rhode Island	3,973,000	2,204,000	2,550,000
South Carolina	539,000	431,000	478,000
South Dakota	261,000	204,000	221,000
Tennessee	1,312,000	891,000	951,000
Texas	11,615,000	7,812,000	8,616,000
Utah	3,249,000	2,277,000	2,544,000
Vermont	588,000	537,000	610,000
Virginia	11,143,000	6,953,000	8,132,000
Washington	23,239,000	19,656,000	22,535,000
West Virginia	94,000	75,000	78,000
Wisconsin	3,974,000	2,891,000	3,545,000
Wyoming	98,000	74,000	75,000

Office of Refugee Resettlement

Estimates for Consulting Services

			Obligations			
Evaluation:	Type 1/	Source of Funds 2/	1985	1986 Appro.	1986 Current Estimate	1987
Account Title:						
Refugee Resettlement	C	A	$100,000	$100,000	$90,000	$90,000
Subtotal, evaluation			$100,000	$100,000	$90,000	$90,000
Non-Evaluation:						
Account Title:						
Refugee Resettlement			-0-	-0-	-0-	-0-
Subtotal, non-evaluation			-0-	-0-	-0-	-0-
Total, consulting services			$100,000	$100,000	$90,000	$90,000
TOTALS:						
Contractual services			$100,000	$100,000	$90,000	$90,000
Personnel appointments			-0-	-0-	-0-	-0-
Advisory committee expenses			-0-	-0-	-0-	-0-
Total, consulting services			$100,000	$100,000	$90,000	$90,000

The Office of Refugee Resettlement (ORR) is requesting $90,000 for FY 1987 Consulting Services. The principal purposes for the use of consulting services are as follows:

- Grant Panel Reviewers ($40,000) - to provide special technical knowledge and expertise in the review, evaluation, and scoring of proposals which have been submitted to ORR under advertised discretionary grants for refugee resettlement and assistance.
- Special Technical Assistance ($50,000) - to provide ORR with highly specialized staff study, consultation, and advice on broad-ranged aspects of refugee resettlement and the synthesis of ORR initiatives.

1/ Contractual services (C)

2/ Appropriated funds (A)

Office of Refugee Resettlement

Estimates for Related Services

Account Title:	Type 1/	Source of Funds 2/	Obligations 1985	1986 Appro.	1986 Current Estimate	1987
Refugee Resettlement	SA	A	$1,000,000	$900,000	$810,000	$810,000
Total, related services			$1,000,000	$900,000	$810,000	$810,000
Totals:						
Management and professional Services			-0-	-0-	-0-	-0-
Special studies and analyses			$1,000,000	$900,000	$810,000	$810,000
Management and support services for research and development activities			-0-	-0-	-0-	-0-
Total, related services ...			$1,000,000	$900,000	$810,000	$810,000

The Office of Refugee Resettlement (ORR) is requesting $810,000 for FY 1987 related services. The purposes of these special studies are as follows:

- Maintenance of ORR Data System ($200,000). A system which provides data storage, computer time, and GSA programmer services required for allocation of funds in carrying out budgeting, programmatic functions, monthly statistical reports, and an annual Report to Congress.
- Data Collection from a Random Sample of Refugees ($170,000). A survey to focus on the adjustment of refugees and their progress toward economic self-sufficiency as a measure of ORR program outcomes.
- Refugee Income Statistics ($20,000). Maintenance of files to produce data on Southeast Asian refugee gross and net incomes and on source of income such as wages, self-employment, investments, unemployment compensation, etc.

1/ Special studies and analysis (SA)
2/ Appropriated funds (A)

- Evaluation of National Discretionary Grant Projects ($100,000). An assessment of the effects of projects funded in FY 1986 as discretionary grants with social services funds.

- Employment Services ($220,000). A study of the implementation of ORR's employment services standards in selected sites and of relationships between client outcomes and service delivery variables.

- Status of Time-Expired Refugees ($100,000). A study of existing State records on welfare utilization among refugees resident in the U.S. beyond 36 months.

Detail of Permanent Positions

	1985 Actual	1986 Estimate	1987 Estimate
Executive level III	1	1	1
Subtotal	1	1	1
GM/GS 15	5	5	4
GM/GS 14	9	8	8
GM/GS 13	30	29	27
GS-12	17	17	15
GS-11	3	3	3
GS-9	4	4	4
GS-7	7	7	6
GS-6	6	6	6
GS-5	3	3	2
GS-4	0	1	1
GS-3	1	-	-
Subtotal	86	84	77
Ungraded	-	-	-
Total permanent positions	86	84	77
Unfilled positions, end-of-year	-	-	-
Total permanent employment, end-of-year	86	84	77

FRIDAY, MARCH 21, 1986.

HEALTH CARE FINANCING ADMINISTRATION

WITNESSES

DR. HENRY R. DESMARAIS, M.D., ACTING ADMINISTRATOR

CHRISTOPHER L. GAMBLE, DIRECTOR, DIVISION OF BUDGET

DENNIS P. WILLIAMS, ACTING DEPUTY ASSISTANT SECRETARY, BUDGET, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. NATCHER. At this time, we take up the budget request for fiscal year 1987 for the Health Care Financing Administration.

We have before the committee Dr. Henry Desmarais, the Acting Administrator. It is a pleasure to have you before our committee this morning.

Tell us who you have with you at the table.

INTRODUCTION OF ASSOCIATES

Dr. DESMARAIS. To my immediate right is Mr. Christopher Gamble, Director of HCFA's Division of the Budget; and to my far right, Mr. Dennis Williams, the Department's Deputy Assistant Secretary for the Budget.

Mr. NATCHER. We will be pleased to hear from you at this time.

BUDGET HIGHLIGHTS

Dr. DESMARAIS. I intend to briefly summarize my testimony and ask it be entered in full into the record.

Our fiscal year 1987 budget request reflects the Administration's continuing commitment to restrain health care costs in order to reduce the deficit and maintain the solvency of the Medicare trust funds. It includes a number of regulatory and legislative initiatives. I will briefly summarize our appropriations request.

MEDICAID

The fiscal year 1987 request for Grants to States for Medicaid is $24.7 billion. This request reflects legislative proposals that would limit the growth in the Medicaid program through a cap, and also eliminate special matching rates for certain administrative costs incurred by State Medicaid programs.

PAYMENTS TO THE HEALTH CARE TRUST FUNDS

The fiscal year 1987 request for Payments to the Trust Funds is $20.4 billion. This request reflects an increase of $1.5 billion, an increase of 8 percent over the comparable fiscal year 1986 level. However, if the legislative proposals included in the budget, particularly the change in the calculation of the Part B premium, are enacted, this request could be lowered by approximately $1.3 billion.

PROGRAM MANAGEMENT

The fiscal year 1987 request for program management is $1.3 billion. This amount is broken out into the following categories:

RESEARCH

The fiscal year 1987 request for research is $18.5 million. This request reflects our decision to target high priority projects, including a variety of congressionally mandated studies.

MEDICARE CONTRACTORS

The fiscal year 1987 request for the Medicare contractors is $957 million, with an additional $50 million for a contingency fund. The Administration has also submitted a number of legislative proposals in this area.

First, we are proposing to eliminate the need for a separate contractor to handle Railroad Retirement Board (RRB) claims. This proposal would save $2 million in fiscal year 1987, and would end a long-standing problem in misrouted claims and undue administrative costs.

Second, we are proposing a legislative change which will afford us more flexibility in negotiating contracts. Just as we are moving away from cost-based reimbursement for our provider community, we would like to do the same thing with respect to the Medicare contractors and avoid or at least not always be held to the use of cost-based contracts. This initiative would save approximately $2.8 million in fiscal year 1987.

Lastly, we are proposing to simplify the processing of Part A hospital claims. This change would save $4 million in fiscal year 1987.

SURVEY AND CERTIFICATION (MEDICARE)

The fiscal year 1987 request for Medicare survey and certification activities is $57 million. This request represents an increase of 15.2 percent over the fiscal year 1986 level.

ESRD NETWORK COORDINATING COUNCILS

The Administration has submitted a legislative proposal to eliminate the Councils. We are also developing a regulatory initiative to reduce the number of Councils to a minimum.

ADMINISTRATIVE COSTS

The fiscal year 1987 request for administrative costs is $215.2 million. This request reflects a staff reduction of 143 full-time equivalents (FTEs), which will be accomplished through attrition and the streamlining of administrative processes.

BUDGET RECONCILIATION

I understand that Congress last evening passed a budget reconciliation measure which has been sent to the President for his signature. This measure has a significant impact on the legislative and regulatory proposals included in the President's budget. It also involves a number of implementation issues.

Thank you, Mr. Chairman.

[The statement of Dr. Desmarais follows:]

STATEMENT OF

HENRY DESMARAIS, M.D.

ACTING ADMINISTRATOR

HEALTH CARE FINANCING ADMINISTRATION

BEFORE THE

SUBCOMMITTEE ON LABOR, HHS, AND EDUCATION

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

FRIDAY, MARCH 21, 1986

Mr. Chairman and Members of the Subcommittee, I am pleased to be with you today to present our FY 1987 budget request for the Health Care Financing Administration (HCFA). This budget plays a prominent part in delivering affordable and top quality health care to the 52 million elderly, disabled and poor who depend upon programs like Medicare and Medicaid. While our function centers on the compassionate delivery of needed health care, we try to assure that such care is provided efficiently.

Before I focus on specific appropriation items of interest to this Subcommittee, I will briefly mention our approach in developing these budget request proposals. When this Administration took office, Medicare health care costs were rising at 21 percent a year. For the current fiscal year, this increase is estimated to slow to 5 percent. This decrease has been accomplished through reforms that have maintained access to quality care by a growing number of beneficiaries. The prospective payment system (PPS) for hospital reimbursement has been a prominent factor in slowing the rate of benefit expenditures through incentives for providers to promote more efficient practices.

Overview

Our 1987 budget reflects the Administration's continued commitment to restrain health care costs in order to do our part to reduce the deficit and sustain the solvency of the Medicare trust funds. In order to accomplish this goal, this budget proposes a number of regulatory and legislative initiatives designed to hold down expenditures. The projected 1987 expenditures represent for Medicare and Medicaid an increase of only $1.6 billion above the current 1986 estimate, or 1.7 percent.

Savings Initiatives

In Medicare, these savings focus on areas that are overpriced or poorly controlled. Hospital reimbursement proposals generally either constrain current cost-based items outside the prospective payment system to inflation levels in the overall economy or integrate the payments into that system. Physician payment limits are held to levels more representative of cost increases directly affecting their profession and overpriced items are reduced to realistic levels. In Medicaid, we propose to continue building on successful approaches adopted over the last several years to deliver care more efficiently and at lower cost.

Together these proposals will reduce our share of Federal health care expenditures by $5.4 billion in 1987 and by $55.4 billion over the next 5 years.

I would now like to review briefly our appropriations request.

Grants to States for Medicaid

The Medicaid program provides grant funding to all States and the territories for medical care for approximately 23 million low income persons. Our FY 1987 request of $24.7 billion reflects the following legislative proposals:

1) to limit FY 1987 Federal expenditures for medical assistance payments (other than Puerto Rico and the territories) to $23.3 billion and to constrain future years' growth to the Medical Care Price Index; and

2) to reform Federal payments for administrative costs by eliminating special matching rates and by providing incentives for high cost States to improve efficiency.

Our budget request seeks to stem the rate of program growth by encouraging States to pursue alternative ways of financing and delivering health care. To facilitate the implementation of such efforts, the Administration will propose a number of measures to give States additional program flexibility. States will be able to use enhanced authority to target services, organize cost-effective systems of care, and explore innovative ways to finance the delivery of care. In addition, a hardship pool of $300 million will be available in FY 1987 to provide relief to those States which, despite aggressive cost containment efforts, experience uncontrollable increases beyond their funding limit.

Payments to the Health Care Trust Funds

The payments account contains monies appropriated to the Medicare Trust Funds. Federal matching funds supporting the Supplementary Medical Insurance program make up the bulk of this account. In addition, the account includes funds to support benefits under the Hospital Insurance program for those beneficiaries grandfathered into entitlement, and military service credit payments enacted by the Social Security Amendments of 1983.

Our FY 1987 request for this account is $20.4 billion - an increase of $1.5 billion or 8.0 percent. It is composed of the following elements:

- Federal payment for Supplementary Medical Insurance (SMI) -$19.8 billion;
- Hospital Insurance for the Uninsured - $435.0 million;
- Military Service Credits - $94.0 million; and
- Hospital Insurance for Uninsured Federal Annuitants - $12.0 million.

One of our legislative proposals would gradually increase the proportion of estimated expenses covered by the SMI premium revenues to 35 percent by 1990. This proposal, if enacted, could reduce our appropriation request by $1.3 billion for FY 1987, while representing only a small increase per beneficiary.

Program Management

This account provides funding for management activities related to Medicare and Medicaid. The total FY 1987 request of $1.3 billion is broken down into $84.5 million appropriated from general funds, and $1.2 billion authorized to be transferred from the Medicare trust funds. Overall, we have worked to reduce ongoing operating costs and to shift resources to enhance the recovery of trust fund dollars and to develop new information as a basis for future reforms of the system.

The Program Management request for FY 1987 covers the following program activities:

1. Research

Results gained from research, demonstrations and evaluations produce knowledge about ways to more effectively manage the Medicare and Medicaid programs. Previous investments in this area have produced information critical to the development of legislation and program changes such as the prospective payment system and expansion of health maintenance organizations. We are requesting $18.5 million for research in FY 1987. This budget reflects the Administration's commitment to improve targeting of limited Federal research resources and reflects continuation of high priority projects, including congressionally mandated studies, that require Federal funding in FY 1986.

2. Medicare Contractors

This budget activity provides funding for operating costs incurred by our contractors in administering the Medicare program. Key functions for which Medicare contractors are responsible are claims processing, payment safeguards and service to Medicare beneficiaries. We are requesting $957 million for this budget activity in FY 1987. This amount represents approximately 1.3 percent of Medicare benefits paid by contractors. In addition, a contingency fund of $50 million is requested to cover unanticipated workload and operating costs which may result from legislative, regulatory and programmatic changes.

The FY 1987 budget reflects a continued emphasis on strengthening payment safeguards, including audit and medical review activities. In FY 1987, HCFA again will focus on reviews to detect unnecessary and inappropriate services provided in hospital outpatient departments, home health agencies, skilled nursing facilities, and by other providers. Medical review and audit activities are expected to result in savings to the program of $989 million in 1987. The budget also reflects the continuation of the Medicare secondary payer efforts by contractors to ensure appropriate payment by third parties where they are primary payer. This program is expected to save about $770 million in Medicare program dollars in 1987 by ensuring that Medicare pays for only those services not covered by private insurance. Total payment safeguard savings are estimated at $1.8 billion in FY 1987.

3. State Certification (Medicare)

The State Certification program is responsible for ensuring that both institutional and noninstitutional providers and suppliers rendering health care services to Medicare patients meet acceptable quality and safety standards. Annual agreements are negotiated with State Agencies to perform surveys of health care facilities in accordance with explicit criteria.

The FY 1987 request for Medicare certification activities and program support services is $57.0 million, an increase of 15.2 percent over the FY 1986 program level. This is in addition to the resources required for Medicaid survey and certification which are included in the Grants to States for Medicaid appropriation request. Our FY 1987 request provides for overall survey coverage of approximately 66 percent of the providers and suppliers participating in Medicare. Within that total level of funding, we will continue to survey 100 percent of long term care facilities. The requested level will provide an increased coverage for hospitals from 50 percent to 75 percent. The survey of home health agencies will be expanded to include approximately 6,400 actual visits to the home. Additionally, 100 percent survey of psychiatric hospitals for staffing and medical records is requested for FY 1987.

4. End-Stage Renal Disease (ESRD) Network Coordinating Councils

ESRD Network Coordinating Councils are responsible for reviewing quality of care and efficient utilization of resources devoted to kidney dialysis and transplantation services. However, these Councils have not proven effective.

Therefore, we are developing a regulation that will allow us to administratively reduce the number of Councils and Networks from 32 to a minimum number, possibly 2. The FY 1987 request of $1 million will support this minimum number of Councils. At the same time, we are submitting a legislative proposal to eliminate the requirement to maintain these Councils.

5. **Administrative Costs**

The Administrative Costs budget activity provides the necessary operating funds to enable HCFA to carry out its program responsibilities. These responsibilities include managing the Medicare and Medicaid programs, coordinating Federal survey and certification efforts, and directing a variety of activities to assure high quality health care.

HCFA staff is continually working toward improving the delivery of health care services provided through the Agency's programs. In FY 1987, HCFA staff will continue to build on initiatives to:

(1) reduce unnecessary regulatory and administrative burdens;

(2) promote competition in the health care industry;

(3) implement Medicare program modifications designed to improve the quality of care; and

(4) reduce program costs.

The FY 1987 budget request is $215.2 million. This level is essentially even with the FY 1986 appropriation. This budget request is consistent with the government-wide effort to achieve administrative efficiencies and reduce the deficit in FY 1987. Savings will be realized through staff attrition and streamlining administrative processes and requirements.

The FY 1987 request will fund a staffing level of 3,757 full-time equivalents (FTEs). This is a reduction of 143 FTEs from our authorized ceiling in FY 1986. HCFA will reduce staffing resources through attrition, thus resulting in no adverse impact on HCFA staff. We are confident that the reduction will be accomplished without a disruption to HCFA's programs.

This concludes my remarks, Mr. Chairman. I will be happy to answer any questions the Subcommittee may have.

CATASTROPHIC COVERAGE

Mr. NATCHER. Doctor, the President announced in his State of the Union address his intention to develop a new program of catastrophic health insurance. There is no reference to that either in the President's budget or in your statement.

What is the current status of this proposal concerning the development of a catastrophic health insurance program?

Dr. DESMARAIS. The President has asked the Secretary to submit by the end of the year recommendations in the area of catastrophic coverage. The first part of the study will examine catastrophic coverage for acute care; the second part will focus on long-term care; and the third part will examine catastrophic coverage for the non-Medicare population.

We have several working groups. There is an executive committee chaired by the Secretary's Chief of Staff, Mr. Thomas Burke. The Secretary has also convened an advisory committee, to be chaired by Mr. James Balog of New Jersey, which will provide an opportunity for private-sector input into these deliberations.

Mr. EARLY. Mr. Chairman, my other subcommittee has a meeting that I have to go to.

Mr. NATCHER. I am going to yield to you.

JOB TRAINING PROGRAMS

Mr. EARLY. Doctor, you suggest that Kentucky and Massachusetts are working to eliminate duplication. The thing that bothers me is, you don't take into account the other reductions the administration is making,

Dr. DESMARAIS. Are you referring to the relationship between our proposals on Medicaid administrative costs and other initiatives affecting State governments?

Mr. EARLY. The Community Services Block Grant.

Dr. DESMARAIS. Another representative of the Administration will be discussing that aspect of the budget.

Mr. EARLY. You make the suggestion we merge programs and eliminate duplication, but you are also eliminating some training programs.

Mr. DENNIS WILLIAMS. We are proposing to eliminate the current WIN program and replace it with a work opportunity initiative in the Aid to Families With Dependent Children program. There would be funding under that program for many of the same activities currently funded under WIN.

Additionally, individuals would be required to get into more work-related activities which would lead more directly to employment.

FOOD ASSISTANCE PROGRAMS

Mr. EARLY. Doctor, you suggest there is a duplication in some of the feeding programs. I would be more comfortable thinking that we were feeding an elderly person, or a not-so-fortunate individual, twice, rather than not feeding them at all?

Dr. **Desmarais.** Mr. Early, I am not as familiar with this area because it does not come under the purview of my agency.

Mr. **Early.** I apologize. I see HCFA as very important, Doctor, and I have said that several times over the past couple of years. The HCFA administration has been outstanding in addressing some particular problems.

I will provide my other questions for the record.

FISCAL IMPACT OF PROSPECTIVE PAYMENT SYSTEM (PPS)

Mr. **Natcher.** All right.

Doctor, three years ago, Congress passed, and the President signed, legislation intended to slow the rate of increase in Federal health care costs. If you will, describe for us briefly what the actual impact has been on Medicare costs during the first three years under the new prospective payment system.

Dr. **Desmarais.** Mr. Chairman, in the first two years of the Prospective Payment System (PPS), the Congress mandated that it be budget-neutral. In other words, although it was a tremendous reform, outlays under it for the first two years were to be approximately the same as would have occurred under the prior policy of limits on cost reimbursement. So we really don't speak about PPS savings during that period.

The impact of the third year of PPS is difficult to estimate because regulations which were to be effective on October 1, 1985, have been put on hold by the Congress, and continue to be on hold while we await the disposition of the reconciliation measure. In the meantime, the Congress has provided a continuation of the old rates that were in effect in fiscal year 1985. Therefore, it is difficult to estimate dollar savings as a result of PPS at this point.

QUALITY OF CARE UNDER PPS

Mr. **Natcher.** Many Members of the Congress have become concerned that these reductions may be carrying cost containment too far. Several of our colleagues, including Mr. Roybal, one of the able members of this subcommittee, Doctor, have introduced legislation, as you know, dealing with this issue.

Let me read briefly from a recent report of the Comptroller General on the general area of health costs:

> Cost containment confronts the Nation with a complex problem. Efforts to control expenditures may adversely affect access to care and the quality of care provided. Prospective payment systems, such as medicare's, create incentives for providers to cut back on services on which they lost money, or not to admit patients whose treatment will be more costly than the payments received. Thus, access to and quality of health care may erode.

Doctor, what would your response be to that statement?

Dr. **Desmarais.** The revolutionary change brought about by the Prospective Payment System (PPS) raised a lot of concerns about quality of care. At the time PPS was enacted, the Congress also provided for a revitalized peer review program. The Peer Review Organizations (PROs) have been hard at work to assure quality of care. These organizations have reviewed approximately 45 percent of Medicare discharges.

We are not finding any systemic problems with premature discharges, but we have uncovered individual cases where quality was not what it should have been. The Peer Review Organizations are addressing these cases, through intensified reviews of providers, sanction recommendations and payment denials for readmissions related to premature discharges.

Reports by the IG and others about hospital profitability should also allay concerns in the short term with respect to the adequacy of payment levels for needed services.

We also have a number of ongoing research projects to monitor quality of care, and we are beefing up our beneficiary education activities. For example, we are now requiring hospitals to provide a standard message to Medicare beneficiaries when they are admitted, to help them understand the system and their appeal rights.

EVALUATION OF PEER REVIEW ORGANIZATIONS

Mr. **Natcher**. Both your statement and the budget documents identify the Peer Review Organization Program as one of the Department's principal programs to guarantee quality. Have you done any formal evaluations, Doctor, of the Peer Review program to determine how effective they are in the areas of quality assurance or cost containment?

Dr. **Desmarais**. We are evaluating them through a separate contractor, SysteMetrics, Inc., known as the "Super PRO." This contractor has been reviewing and submitting written reports on the performance of each one of the Peer Review Organizations.

We are now planning for the next two-year contract cycle. Information from the "Super PRO" will be used to evaluate the existing Peer Review Organizations. We have decided not to automatically renew some of the PRO contracts because performance was not at a sufficient level to warrant renewal. We have announced in the Commerce Business Daily that these contracts are now open for new bidders.

We have also terminated the original contractors in Pennsylvania, Massachusetts, and South Carolina, and are now in the process of terminating another contractor in New Mexico for poor performance.

We are therefore carefully monitoring the performance of the Peer Review Organizations, both through our regional offices and the "Super PRO."

PRO OUTLAYS

Mr. **Natcher**. How much money was spent in fiscal year 1985 for the peer review program? How much is currently budgeted for this program in fiscal year 1986 and fiscal year 1987?

Dr. **Desmarais**. In fiscal year 1985, PRO outlays were $131.2 million. In fiscal year 1986, after the Gramm-Rudman-Hollings sequestration, PRO outlays are expected to be $158.4 million; and in fiscal year 1987, $168.8 million.

PRO TERMINATIONS AND NON-RENEWALS

Mr. NATCHER. We understand that three peer review contracts have been terminated during the last year. Tell us why these contracts were terminated, and also tell us how many of the current Peer Review Organizations are considered marginal in their performance.

And at this time, Doctor, at the proper time, we will talk with you and Dr. Roper after he has been confirmed concerning the situation in Kentucky. Go right ahead now, Doctor.

Dr. DESMARAIS. We have terminated three contractors. There is now a fourth, the Peer Review Organization in New Mexico, which we are in the process of terminating for poor performance.

Mr. NATCHER. Right there, Doctor, you say poor performance, talk to us a little bit about that. Why poor performance? What are they doing that they are not supposed to do, or what should they be doing that they are not?

Dr. DESMARAIS. Frequently, it is a case of not performing the requisite number of reviews or reviews in particular areas, or reviews in a timely fashion. We have evaluated the first group of PRO contracts, which are up for renewal. Eight contractors passed the evaluation and were sent letters regarding the need for technical clarifications of their proposals for the next two-year period. Seven contractors, including Kentucky, were sent letters of non-renewal. These organizations have a right to appeal this decision, and also have the opportunity to submit a bid for the next two-year period. We recognize that, although an organization might be identified as not performing as it should be, it should be afforded an opportunity for corrective action.

During the last two years, if performance and meeting of deliverables, e.g., reporting of information, was not what it should be, we suspended payments until the problems were corrected. We have generally found that to be a very useful tool. In some cases, however, it was apparently not enough, and we then took more aggressive action.

Mr. NATCHER. Doctor, the payments that you just referred to, as far as the operation of one of these organizations is concerned, generally speaking, what is the approximate cost in any of the States? What does it run? Can you give us some idea?

Dr. DESMARAIS. It varies a great deal, of course.

Mr. NATCHER. Average State, not a large or not necessarily a small one?

Dr. DESMARAIS. I don't believe we have those figures with us.

Mr. NATCHER. Place a little statement in the record for me, if you will, please.

[The information follows:]

AVERAGE COST OF PEER REVIEW ORGANIZATIONS

PRO contract costs vary considerably by PRO geographic area. They range from $27 million in California to $226,000 in American Samoa and Guam. Over 40 percent of the aggregate cost of PRO contracts during FY 1984-86 is distributed unevenly across 7 States (California, New York, Pennsylvania, Texas, Illinois, Florida, and Ohio). The remainder of the aggregate cost of PRO contracts is spread unevenly across the remaining 47 PROs. The distribution is based upon the number of Medicare admission in each PRO area.

RESEARCH ON QUALITY OF CARE

Mr. **Natcher**. On page 90 of the budget justification, you include the following statement, and I quote: "Valid quality of care measures are necessary to be able to access and ensure the maintenance of quality health care under the medicare program."

At the same time, Doctor, you propose to reduce research funding in this area from $11 million in 1986 to $7 million in 1987.

Why such a large decrease, Doctor?

Dr. **Desmarais**. Which numbers are you referring to?

Mr. **Natcher**. Page 86 of your justification.

Dr. **Desmarais**. That amount is for continuations and new projects. It reflects in part the impact of the Gramm-Rudman-Hollings reduction in fiscal year 1986.

Mr. **Natcher**. That is too much, Doctor.

Take another look.

Dr. **Desmarais**. Oh, I am sorry. There is also the rescission request that the Administration has sent forward for Congressional action.

Mr. **Natcher**. All right, how much money is included in your 1987 proposal for new research projects in the area of quality of care, Doctor?

Dr. **Desmarais**. I don't believe we have any new projects in this area. We will be continuing a number of ongoing projects. We have allocated over $5 million to fund ongoing quality of care projects.

Mr. **Natcher**. Doctor, is it your position that no additional research in the area of quality of care for medicare recipients is necessary?

Dr. **Desmarais**. I want to distinguish again between additional and continuing. We are continuing a number of studies in the area of quality of care. First, we are conducting an intramural beneficiary impact study, which will examine changes in mortality rates. We also have contracts with the Commission on Hospital and Professional Activities, the Urban Institute, and the Rand Corporation, to study a number of areas, e.g., the impact of PPS on treatment patterns and hospital usage, the use of administrative data to develop non-intrusive outcome measures, and the impact of PPS on ESRD beneficiaries.

In addition, we are moving to assess the status of patients at the time of discharge, so that we can develop meaningful measures of hospital care outcomes. By focusing on the status of patients at the time of discharge, we can obtain a better understanding of what occurs after discharge from the hospital.

Mr. **Natcher**. Now, Doctor, why no new research grants? Isn't that important to you?

Dr. **Desmarais**. We decided to continue and bring to completion a number of ongoing projects. In fiscal year 1987, we are not starting any new efforts.

IMPACT OF GRAMM-RUDMAN-HOLLINGS

Mr. **Natcher**. The Gramm-Rudman law provides for the sequestration of 1 percent of Medicare program funds. How is this reduction being implemented, Doctor?

Dr. **Desmarais**. It is accomplished in a rather simple fashion on the programmatic side. Whatever the policy is at the moment, whatever the reimbursement amount would be, e.g., for a physician claim or hospital discharge, at the point when the contractor is ready to generate a check for payment, the amount of that check is reduced by 1 percent to reflect the sequestration order. As the policy changes, e.g., as it did, from March 1st to March 14, we will first adjust the reimbursement level and then reduce the payment by 1 percent.

Mr. **Natcher**. The Gramm-Rudman cut in the area of Medicare administration is approximately $51 million, as you know, Doctor. What is the impact of this reduction on medicare beneficiaries or providers?

Dr. **Desmarais**. That reduction will be taken in program management. Its most significant impact will be on the Medicare contractor budget.

In particular, the processing of Medicare claims will be slowed over time. At the moment, we have, on the average, about nine days' work on hand under Part A, and about 11 days' work on hand under part B. Over time, we would expect Gramm-Rudman-Hollings to add about a week to each of those work day figures.

There is a broader issue here—how quickly should the government make payment on claims? As you know, under the Prompt Payment Act, the required payment cycle for government contractual obligations is generally 30 days.

This policy enables the Federal Government to earn the most interest possible. In this case, interest would accrue to the Medicare trust funds.

The Medicare contractors are not bound by the Prompt Payment Act. Nonetheless, the issue of payment cycles is certainly related.

Mr. **Natcher**. Will the Gramm-Rudman reduction reduce your ability to monitor the quality of health care provided to Medicare recipients, Doctor?

Dr. **Desmarais**. Mr. Chairman, we do not expect any problem with the Peer Review Organization budget. We have retained some funds for contingencies. Adequate funding for the Peer Review Organizations is assured for the remainder of fiscal year 1986.

Mr. **Natcher**. Will any Health Care Financing Administration employees be separated or furloughed in 1986?

Dr. **Desmarais**. We have no plans to furlough or to RIF. We expect to deal with the situation through attrition, which currently runs about 20 employees per month. During the remainder of the fiscal year 1986, we will replace critically needed employees at the rate of one for every three losses.

DELAYS IN MEDICARE CLAIMS PROCESSING

Mr. **Natcher**. Will the amount of time it takes to process medicare claims increase significantly, because of Gramm-Rudman?

Dr. **Desmarais**. Yes, sir, the impact will add about a week's work on hand to both the part A and Part B claims processing workload. Instead of having nine days' work on hand under Part A, we will have 16 days' work on hand, and instead of 11 days' work on hand under Part B, we will have 18 days' work on hand.

MEDICARE AUDITS

Mr. **Natcher**. We have been told that there is a critical shortfall during 1986 in funding for medicare auditors. What can you tell us about this problem, Doctor?

Dr. **Desmarais**. Mr. Chairman, given the available funds, we will defer some of the audits that would normally have been done in fiscal year 1986. All of the cost reports will continue to be subject to desk review. Some field work, however, will be deferred.

MEDICARE CONTRACTOR CONTINGENCY FUND

Mr. **Natcher**. Has the Health Care Financing Administration requested that the contingency reserve for claims processing costs be released, and if so, where does that request stand, Doctor?

Dr. **Desmarais**. We have discussed the use of the contingency fund, with the Department. To date however, no request has been submitted to the Office of Management and Budget to release the contingency fund.

Mr. **Natcher**. Mr. Williams, can you tell us who is holding up the release of the contingency review, and what their objection is? Do you know about this?

Mr. **Dennis Williams**. We have had discussions with HFCA about the use of that fund. It was our view at the time we discussed it, that we ought to wait a little bit more in the year to see how funding goes before we make a final decision, to use the contingency fund.

If we get evidence that there is a real problem, then we would forward a request to the Office of Management and Budget.

Dr. **Desmarais**. The issue is further complicated by the fact that budget reconciliation measure provides additional monies for audits, as well as other additional monies. The Department is waiting to see if this measure is enacted into law before coming to a decision about the use of the contingency fund.

Mr. **Natcher**. All right.

Mr. Conte, I yield to you.

HOSPITAL MORTALITY RATES

Mr. **Conte**. Doctor, I want to join the Chairman in welcoming you to our Committee today. From the sheets attached to your statement here, I see you have had a lot of experience on Capitol Hill, so you shouldn't have any difficulties with us.

Doctor, the Health Care Financing Administration recently went public with a list of hospitals with unusual mortality rates. Several hospitals in my District were really upset with your action, and I tend to agree with them.

Can you tell me generally why you decided to do this?

Dr. **Desmarais**. We planned to provide the data on mortality rates and utilization to the Peer Review Organizations. The data was intended to help them do a better job of monitoring quality of care. Members of the press, however, began to ask for the information. We consulted with the Department's attorneys and were told that, under the Freedom of Information Act, we were legally obliged to make that information available, although it was never meant to be a consumer report on hospitals in the country. We released the information, but have made every effort to help the public understand what it means and how it should be used.

Mr. **Conte**. How was the data for that report generated?

Dr. **Desmarais**. It was generated from 1984 data on over 10 million Medicare hospital discharges. We reviewed the data in terms of length of stay and diagnosis, and applied a sophisticated model to identify statistical outliers. This model had been discussed with a variety of experts inside and outside the government, NIH, representatives of the hospital industry, and the Peer Review Organizations. Although the model was not adjusted to reflect every possible variable, the experts were convinced that it was the best instrument to analyze the data we had.

Mr. **Conte**. From what I was told, Doctor, in the case of Massachusetts, which has only been under the new DRG system for three months, that three months of billing data was taken and extrapolated for a three-year period, with relatively no consideration given for any quality reviews underway, or other important information. Given that, don't you really think that the information in these lists is seriously flawed?

Dr. **Desmarais**. It depends on the way the information is used. It should not be used by your constituents to jump to conclusions about the quality of care in individual hospitals that are or are not on the list.

However, we believe that it will assist our Peer Review Organizations. In the second round of contracts for the Peer Review Organizations, we will mandate more focused reviews. Currently, the Peer Review Organizations review about 45 percent of Medicare hospital discharges. In the second round, review coverage will be reduced to about 25 percent, but the review effort will be better targeted.

Mr. **Conte**. What I still fail to understand is why you went about it this way? Why attack someone in the press, and then have them mail in their refutation? Why not review and analyze the data with serious controls, and then, if supported by the facts, make a public accusation?

Dr. **Desmarais**. Unfortunately, that option was not available. Since the information has now been made public, we believe that many hospitals and their medical staffs will be checking to see if there are problems and, if so, will take corrective action. Therefore, although we meant to provide the data only to the Peer Review Organizations, now that it is public, there is the added benefit that the medical staff that run the hospitals have also been made aware of it.

Mr. **Conte**. You know as well, as I do, as a public figure working here in Washington that a story like this in the press can cause a lot of harm. And these hospitals never got the chance to refute it. They have the evidence to refute it, but once it is in the press it becomes a matter of fact, and that specific hospital is labeled with a high mortality rate. These hospitals could be confessing and pleading for the rest of time that it is not true, but people remember that first statement.

Dr. **Desmarais**. I agree with you, but, without such information, it is difficult to monitor quality of care. We did not make up the information. It is based on 10 million Medicare discharges. We did not intend to make it public, but we will do everything we can to help the public understand what it does and does not mean.

OVERPAYMENT OF MASSACHUSETTS HOSPITALS

Mr. **Conte**. Doctor, Joe Early and I questioned the Secretary on this, but I want to see if you can give me an update. As you know, Massachusetts hospitals were told by HCFA that they were overpaid the past three years, when the State was waivered from the normal medicare reimbursement rules, and the Department is seeking about $60 million from the hospitals this year.

What is the current status of this information?

Dr. **Desmarais**. We still believe there has been an overpayment. Under the terms of the existing cap agreement, the hospitals in Massachusetts must be notified by April 1 about the latest estimate of the overpayment.

Mr. **Conte**. April 1?

Dr. **Desmarais**. Yes, sir. We have already transmitted the information to our regional office on the size of the overpayment. We have made some downward adjustments in the estimate because of data the hospital association has provided to us. The Secretary's Office is committed to giving the hospitals a fair hearing before April 30, the last day that the quarterly recoupment payment could be made without incurring interest.

Mr. **Conte**. The payment data is final?

Dr. **Desmarais**. I believe that the second annual cap calculation is now final. The regional office will transmit it to the hospitals on April 1.

BENEFICIARY OUT-OF-POCKET COSTS

Mr. **Conte**. Last year, I asked Dr. Davis to give me a chart showing the ratio between out-of-pocket costs to the total bill paid for hospital services to medicare patients.

Could you update that table for me in the record?

Dr. **Desmarais**. Yes, sir.

[The information follows:]

Out-of-Pocket Costs for Hospital Services

The following table displays the out-of-pocket costs incurred by Medicare beneficiaries for hospital services for available historical years:

(In millions of dollars)

	Total hospital out-of-pocket costs	Ratio of hospital out-of-pocket costs to inpatient hospital benefits (percent)
1974	$607	6.9
1975	691	6.4
1976	824	6.5
1977	1,015	6.8
1978	1,229	7.3
1979	1,425	7.3

(In millions of dollars)

	Total hospital out-of-pocket costs	Ratio of hospital out-of-pocket costs to inpatient hospital benefits (percent)
1980	[1]1,707	[2]7.1
1981	[1]1,970	[2]6.8
1982	[1]2,557	[3]7.6
1983	[1]3,057	[2]8.3
1984	[1]3,509	[2]8.7
1985	[1]3,813	[2]8.7

[1] Calculated from estimated percentage.
[2] Estimated from incomplete data.
[3] Basis of deductible changed effective CY 1982.

Mr. **Conte**. Last year's chart showed a general rise in out-of-pocket costs to our senior citizens from about $1,800 in 1980 to $3,400 in 1984. And that is just hospital services. In addition, I noted in the recent report of the Prospective Payment Commission to this Committee that the decline in the average length of stay has increased the demand for post-discharge services, and more of these costs as well are coming out of the beneficiaries and their families.

What share of total health services to medicare beneficiaries comes out-of-pocket, and what share is picked up by the Federal Government?

Dr. **Desmarais**. Mr. Conte, I believe we will have to submit that for the record.

Mr. **Conte**. All right, no problem.

[The information follows:]

TOTAL OUT-OF-POCKET COSTS

Medicare pays for 50 percent of the total health services purchased by Americans over the age of 65. Private insurance companies, Medicaid, and other government programs pay 25 percent and beneficiaries pay the remaining 25 percent.

HOME HEALTH COPAYMENTS

Mr. **Conte**. Your budget proposes to assess a co-payment for home health services starting in fiscal year 1987. What would that charge be in dollars?

Dr. **Desmarais**. If implemented today, the copayment would be $4.92, i.e., 1 percent of the hospital deductible, which is currently $492. Beginning in calendar year 1987, it will be 1 percent of whatever what the new hospital deductible is determined to be.

Mr. **Conte**. It will be 1 percent

Dr. **Desmarais**. Yes, sir.

Mr. **Conte**. Do you have any figures on the average number of annual home health visits utilized by Medicare beneficiaries?

Dr. **Desmarais**. We do, and I might observe that the number of visits per Medicare beneficiary receiving home health services is rising, as well as the total number of visits.

Mr. **Conte**. At a time when there is some question about whether patients are being sent home from hospitals a little sooner and a little sicker, do you think this kind of proposal makes sense? Aren't you kind of hitting the patient at both ends?

Dr. DESMARAIS. Under the proposal, the 1 percent co-payment will not be incurred for visits occurring within a spell of illness following a stay in a hospital or skilled nursing facility, as long as services begin within 30 days of discharge and are related to the condition for which hospital or SNF care was required.

HEALTH MAINTENANCE ORGANIZATIONS

Mr. CONTE. Doctor, last year, the Department issued final regulations for Medicare reimbursement to health maintenance organizations. How many HMO's are now in the program?

Dr. DESMARAIS. There are approximately 120 contracts with health maintenance organizations and competitive medical plans. About 500,000 Medicare beneficiaries are now covered under TEFRA risk-based contracts.

Mr. CONTE. Do you think this program is working well, both in terms of services to beneficiaries and savings to Medicare?

Dr. DESMARAIS. We are very encouraged. We have had many contract requests from various organizations. Patient satisfaction seems to be very good. Many are getting benefits they would not otherwise be receiving through Medicare such as preventive health care, hearing aides, and eyeglasses, yet we are paying 95 percent of what we would expect to pay in the traditional medical fee-for-service system.

HILLCREST HOSPITAL

Mr. CONTE. Last year, Doctor, the Hillcrest Hospital in my hometown of Pittsfield applied, as part of a group plan, for Medicare-HMO approval. They recently wrote to say that they hadn't gotten a decision from you yet, and asked me to see what the hold-up was. Doctor, can you look into the status of that application for me and report back to my office as soon as possible?

Dr. DESMARAIS. Yes, sir.

Mr. CONTE. I appreciate it.

[The information follows:]

HMO APPLICATION FOR HILLCREST HOSPITAL

The Capital Area Community Health Plan has submitted TEFRA risk HMO applications for three contracts. The contract to provide services at Hillcrest Hospital has been approved and is effective April 1, 1986.

FY 1987 RESEARCH BUDGET

Mr. CONTE. You are proposing a very substantial, almost 40-percent reduction in the research and demonstration program. I realize that there is never enough money to fund all the worthwhile projects, but I am troubled by the extent of this cut.

Am I correct in characterizing this research as aimed at looking for ways to improve the delivery of services, and exploring the most cost-effective methods of providing those services?

Dr. DESMARAIS. Yes, we have much ongoing research in a number of areas, e.g., refinements to the Prospective Payment System, quality of care measures, new reimbursement mechanisms for home health and long-term care services, competitive bidding, and other ways to stretch the Medicare dollar and provide the right incentives.

Mr. CONTE. It must be kind of tough to get a big cut like that in an area where you could save money through those studies?

Dr. DESMARAIS. We must target our resources on the highest priority studies, including those mandated by the Congress.

Mr. CONTE. Highlight for us some of the major studies you plan to work on this year.

Dr. DESMARAIS. Yes, I would be delighted to.

[The information follows:]

RESEARCH STUDIES PLANNED IN FY 1987

In fiscal year 1987, HCFA will continue:

studies designed to test systems which capitate payments for various types of services as an alternative to fee-for-service reimbursement, such as HMOs and geographic capitation (approx. $4.8 million);

study of refinements to and analysis of impacts of the Medicare prospective payment system, with special focus on the impact to quality of care delivered to beneficiaries and access to care (approx. $4.5 million);

improvements to existing Medicare and Medicaid data bases essential to providing information on health care expenditures and utilization patterns (approx. $2.9 million);

demonstration of competitive bidding models for provision of benefits such as durable medical equipment (approx. $2 million);

testing alternative payment systems, including capitation, competition and prospective payment, for sub-acute care (approx. $2 million);

studies of Medicare/Medicaid coverage issues to determine impact on treatment and service utilization (approx. $.8 million);

studies designed to improve the existing Medicare physician payment system (approx. $.7 million);

studies to demonstrate and evaluate the impact of preventive services and patient education efforts on health care costs and utilization (approx. $.6 million); and

efforts aimed at evaluation of major changes in the Medicare program, such as the hospice benefit (approx. $.2 million).

Mr. CONTE. Obviously, a 40-percent cut means something has to go. What studies will you be forced to drop or postpone because of the budget cut? And let me ask you this, does the proposed cut impact any studies mandated by the Congress?

Dr. DESMARAIS. No, the budget request is sufficient to fund the congressionally mandated studies.

Mr. CONTE. You can get the other information for the record.

Dr. DESMARAIS. Yes, I think that would be best.

[The information follows:]

IMPACT OF REDUCED RESEARCH FUNDING IN FY 1987

Within the limits of HCFA's requested research and demonstration budget for FY 1987, we have funded all FY 1986 project continuations and all congressionally mandated research.

As in any research and demonstration program, there are always more worthy projects than resources. HCFA's research agenda is developed and approved on an annual basis and funding request levels govern the research planning process. Therefore, we have not planned any projects which would have gone unfunded.

Mr. CONTE. Also, for the record, will you provide us with a description of the studies now underway, and give us a status report on any mandated studies still outstanding?

Dr. DESMARAIS. Yes, sir.

[The information follows:]

FY 1986 RESEARCH PROJECTS

In FY 1986, HCFA will be continuing approximately $19 million in current projects and award approximately $3 million in new projects.

Project continuations include:

- studies designed to test systems which capitate payments for various types of services as an alternative to fee-for-service reimbursement, such as HMOs (approx. $2.7 million);
- study of refinements to and analysis of impacts of the Medicare prospective payment system, with special focus on the impact to quality of care delivered to beneficiaries and access to care (approx. $6.1 million);
- improvements to existing Medicare and Medicaid data bases essential to providing information on health care expenditures and utilization patterns (approx. $1.9 million);
- demonstration efforts of competitive bidding models for provision of benefits such as durable medical equipment (approx. $2.0 million);
- testing alternative payment systems, including capitation, competition, and prospective payment, for sub-acute care (approx. $2.0 million);
- studies of Medicare/Medicaid coverage issues to determine impact on treatment and service utilization (approx. $1.6 million);
- studies designed to improve the existing Medicare physician payment system (approx. $1.1 million);
- studies to demonstrate and evaluate the impact of preventive services and patient education efforts on health care costs and utilization (approx. $.8 million);
- efforts aimed at evaluation of major changes in the Medicare program, such as the hospice benefit (approx. $.8 million).

FY 1986 RESEARCH PROJECTS

New projects we plan to undertake in FY 1986 include:

- Intermediary at risk evaluation - An evaluation of a payment system under which reimbursement for Medicare Part A and B services and administrative costs would be capitated for all beneficiaries in a specific geographic area (approx. $.75 million).
- Prospective payment analysis - Survey design, data collection and statistical analysis of issues such as: total program expenditures; inpatient hospital expenditures; intermediate and long term care outlays, hospital cost control, workload, and case mix; and quality of care provided to beneficiaries and access to care as well as out-of-pocket expense (approx. $.3 million).
- Benchmark studies of national health accounts - Investigation of new data sources for use in estimations of national health expenditures; evaluation of concepts and definitions underlying the national health accounts (the conceptual framework and associated data bases used in estimating the Nation's expenditures for health and medical care); analytical studies on specific aspects of the accounting estimation framework to ensure statistical reliability and validity (approx. $.2 million);
- Small business innovation research - Research project awards to small businesses to foster and encourage participation by minority and disadvantaged persons in technological innovation, as required by P.L. 97-129 (approx. $.1 million).
- Demonstration evaluations - Evaluations focusing on demonstration effectiveness in controlling increases in costs and/or use of health care services (approx. $1 million).
- Medicaid tape-to-tape - Acquisition of person-level data on medicaid enrollment claims and providers from State Medicaid Management Information Systems to compare State trends of enrollment use and expenditures under Medicaid. Uniform data files across the States will be established (approx. $.65 million).

STATUS OF CONGRESSIONALLY MANDATED REPORTS

Provided below is a status report on research and demonstration congressionally mandated reports:

o FY '86 Reports

- **All Payors/Cost Shifting (Section 603(a) of P.L. 98-21)**
  - + Feasibility and desirability of applying the prospective payment methodology to all payors for inpatient hospital services, including consideration of the extent of cost-shifting to non-Federal payors and the impact of such cost-shifting on health insurance costs and premiums borne by employers and employees.
  - + Legislative due date--12/31/85.
  - + Expect to submit to Congress by 6/86.

- **AFDC Homemaker/Home Health Aide Demonstration Annual Report (Section 966 of P.L. 96-499 and Section 2156 of P.L. 97-35)**
  - + Annual report evaluating progress of demonstration projects for the training and employment of AFDC recipients as homemakers or home health aides.
  - + Legislative due date--1/86.
  - + Expect to submit to Congress 3/87.

- **Urban-Rural Issues (Section 603)(c) of P.L. 98-21)**
  - + Feasibility and impact of eliminating or phasing out separate urban and rural DRG prospective payment rates.
  - + Legislative due date--12/31/85.
  - + Expect to submit to Congress 3/87.

- **1985 Annual PPS Impact Report (Section 603(a) of P.L. 98-21)**
  - + Impact of the prospective payment methodology on classes of hospitals, beneficiaries, other payors for inpatient hospital services, and other providers; and the impact of computing averages by census division, rather than on a national basis.
  - + Legislative due date--12/31/85
  - + Expect to submit to Congress 8/86.

- **Impact of PPS on Hospitals' Willingness to Participate in Clinical Trials (P.L. 98-619; FY 85 Appropriations Report #98-911)**
  - + Joint study with PHS to determine the extent to which PPS has unintended or harmful effects on hospitals' willingness to participate in clinical trials.
  - + Legislation required preliminary report prior to submission of FY '86 budget.

STATUS OF CONGRESSIONALLY MANDATED REPORTS

+ May submit to Congress 8/86 or include in '86 Annual PPS Impact Report (to Congress 6/87). Most of the work being done relative to this issue is under the control of PHS and the National Cancer Institute.

- **Impact of PPS on Blood Banking Industry (House Appropriations Committee)**
  + Study on impact of PPS on the structure of the blood banking industry, including demand for blood products, capital acquisition by blood centers, and training of personnel.
  + No due date specified in legislation.
  + Will include in '85 Annual PPS Impact Report (to Congress 8/86)

- **Health Maintenance Organizations (Section 2178 of P.L. 97-35)**
  + Study evaluating the extent of, and reasons for, Medicaid beneficiaries' terminating membership in HMOs, as well as the quantity and quality of medical care provided.
  + No due date specified in legislation.
  + Expect to submit to Congress late FY '86/early FY'87.

- **Rural Teaching Hospitals and Referral Centers (Section 603(a)(3)(c) of P.L. 98-21)**
  + Report on adjustments that might be appropriate for large teaching hospitals located in rural areas.
  + Legislative due date--4/1/85.
  + Status of report contained in report on sole community hospitals.
  Additional analyses using cost report data from PPS-1 was necessary and has delayed report. Final report to be included in Urban/Rural Issues Report which is expected to be submitted to Congress 3/87.

- **Uncompensated Care (Section 603(a) of P.L. 98-21)**
  + Report on the appropriate treatment of uncompensated care costs, and adjustments that might be appropriate for large teaching hospitals located in rural areas.
  + Legislative due date--4/1/85.
  + Expect to submit to Congress 8/86.

STATUS OF CONGRESSIONALLY MANDATED REPORTS

- **Sole Community Hospitals/Rural Referral Centers (Section 603(a) of P.L. 98-21)**
  - + Study regarding an equitable method of reimbursing sole community hospitals and rural referral centers to take into account their unique vulnerability to substantial variations in occupancy.
  - + Legislative due date--4/1/85.
  - + Expect to submit to Congress 6/86.

- **Excluded Hospitals (Section 603(a) of P.L. 98-21)**
  - + Studies on methods for paying those hospitals not under PPS on a prospective basis for inpatient hospital services.
  - + Legislative due date--12/31/85.
  - + Expect to submit to Congress 7/86. Currently undergoing Department review.

- **Paying Physicians/Physician Services to Hospital Inpatients (Section 603(a) of P.L. 98-21)**
  - + Recommendations on the advisability and feasibility of providing for payment based on a DRG-type classification for physicians' services furnished to hospital inpatients.
  - + Legislative due date--7/1/85.
  - + Expect to submit to Congress 5/86. Currently undergoing Department review.

- **Respiratory Therapy (Section 958 of P.L. 96-499)**
  - + Study on the need for coverage of respiratory therapy services as a home health benefit under Medicare.
  - + Legislative due date--12/5/82.
  - + Submitted to Congress 3/86.

- **Impact of PPS on Hospital Admissions and Feasibility of A Volume Adjustment (Section 603(a) of P.L. 98-21)**
  - + Report on the impact of PPS on hospital admissions and the feasiblity of making a volume adjustment in the DRG certification in order to minimize the incentive to increase admisssions.
  - + Legislative due date--12/31/85.
  - + Expect to submit to Congres 5/86. Currently undergoing Department review.

- **Registered Dietitians (Section 930 of P.L. 96-499)**
  - + Study of the circumstances and conditions under which services furnished by registered dietitians should be covered as a home health benefit under Medicare.
  - + Legislative due date--12/5/82.
  - + Expect to submit to Congress 5/86. Currently undergoing Department review.

STATUS OF CONGRESSIONALLY MANDATED REPORTS

- **DRG Refinement (Section 603(a) of P.L. 98-21)**
  - + Report on the appropriateness of the factors used to compensate hospitals for the additional expenses of outlier cases and the application of severity of illness, intensity of care, and other modifications to the DRGs, and the advisability and feasibility of providing for such modifications.
  - + Legislative due date--12/31/85.
  - + Expect to submit to Congress 7/86.

- **Reimbursement for Home Health Services (Section 930 of P.L. 96-499 and Section 6 of P.L. 97-414)**
  - + Compilation and analysis of the results of studies related to alternative reimbursement methodologies for home health services.
  - + Legislative due date--7/31/83.
  - + Expect to submit to Congress 5/86.

- **Hospice Demonstration Evaluation (Section 122(h)(2) of P.L. 97-248)**
  - + Report on the effectiveness of current hospice demonstration projects, including (1) cost effectiveness, (2) reasonableness of 40 percent cap amount, (3) proposed methodology for determining cap amount, (4) proposed standards for utilizing volunteers, and (5) evaluation of physician reimbursement for hospice services.
  - + Legislative due date--9/30-83.
  - + Submitted to Congress 4/86.

- **Medigap (Section 1882(f)(1)(C))**
  - + Report on the effectiveness of various State approaches to the regulation of Medicare supplemental policies and the need for additional standards.
  - + Legislative due date--1/1/82.
  - + Expect to submit to Congress 8/86.

o FY '87 Reports

- **Impact of State Rate-Setting Systems (Sec. 603(a) of P.L. 98-21)**
  - + Study examining the overall impact of State hospital payment systems on the Medicare and Medicaid programs, payments and premiums under private health insurance plans, and tax expenditures.
  - + Legislative due date--12/31/86.
  - + Expect to submit to Congress 5/87.

STATUS OF CONGRESSIONALLY MANDATED REPORTS

- **1986 Annual PPS Impact Report (Sec. 603(a) of P.L. 98-21)**
  + Impact of the prospective payment methodology on classes of hospitals, beneficiaries, other payors for inpatient hospital services, and other providers; and the impact of computing averages by census division, rather than on a national basis.
  + Legislative due date--12/31/86.
  + Expect to submit to Congress 8/87.

- **Home Health: Identifying Individuals at Risk (Sec. 6(e)(1)(A) of P.L. 97-414**
  + Demonstrations testing methods for identifying patients at risk of institutionalization who could be treated more cost-effectively with home health services and other non-institutional health services.
  + Legislative due date--1/1/85
  + Report due from contractor 7/86. Expect to submit to Congress 1/87.

- **Physician-Directed Clinics (Sec. 3 of P.L. 95-210)**
  + Demonstrations in urban, medically-underserved areas with respect to physician-directed clinics employing physician assistants or nurse practitioners.
  + No due date established in legislation.
  + Completion of demontrations delayed. Evaluation being done under contract with A.D. Little. Expect to submit to Congress 4/87.

- **Home and Community-Based Services (Sec. 6 of P.L. 97-414)**
  + Results of studies evaluating home and community-based health services. Recommendations for improving provision of such services. Information generated under Medicaid Program Evaluation Contracts.
  + Legislative due date--1/1/85.
  + Interim report submitted to Congress 10/85. Expect final report from contractor 9/30/86, with submission to Congress of HCFA report by 6/87.

- **Certified Registered Nurse Anesthetists (Sec. 2312 of P.L. 98-369)**
  + Possible Medicare reimbursement methods that would not discourage the use of certified registered nurse anesthetists by hospitals.
  + No due date established in legislation.
  + Draft due from contractor 12/86. Expect to submit HCFA report to Congress by 7/87.

STATUS OF CONGRESSIONALLY MANDATED REPORTS

Swing Beds (Sec. 904 of P.L. 96-499)
- + Evaluation of the rural swing-bed program, under which Medicare/Medicaid hospitals use beds as acute or long-term care beds.
- + Legislative due date--12/5/83.
- + Evaluation study was delayed pending publication of regulations and accumulation of sufficient data. Evaluation contract awarded 9/30/83. Final report was due from contractor 12/86, with HCFA report to Congress by 9/87. Contractor's report (and, therefore, HCFA report) may be delayed 6 months. (New form for 1984 hospital cost reports necessitates lengthier review than did "old" form.)

- **Clinical Social Workers (Sec. 958 of P.L. 96-499)**
  - + Demonstration projects to determine the administrative, financial, and other aspects of making the services of clinical social workers more generally available under Medicare.
  - + Legislative due date--12/5/82.
  - + Report due from contractor (SRI) 12/86. Expect HCFA report to be submitted to Congress 9/87.

- **AFDC Homemaker/Home Health Aide Demonstrations (Sec. 966 of P.L. 96-499 and Sec. 2156 of P.L. 97-35).**
  - + Final report evaluating demonstration projects for the training and employment of AFDC recipients as homemakers or home health aides.
  - + Legislative due date--7/87.
  - + Final report from contractor due 1/87. Expect to submit HCFA report to Congress 7/87.

o FY '88 Reports

- **Social Health Maintenance Organizations (Section 2355 of P.L. 98-369)**
  - + Final report on project to demonstrate the concept of a social HMO.
  - + Legislative due date--1/88.
  - + Contractor evaluation will not be complete in time to meet congressional due date. We expect to submit report in late FY 1988 or early 1989.

STATUS OF CONGRESSIONALLY MANDATED REPORTS

- **SNF Shortage (Section 603(d) of P.L. 98-21)**
  - + Demonstrations with hospitals in areas with critical shortages of skilled nursing facilities to study feasibility of providing alternative systems of care/methods of payment.
  - + No due date established in legislation.
  - + Expect to submit to Congress 9/88.

- **1987 PPS Annual Impact Report (Section 603(a) of P.L. 98-21)**
  - + Impact of the prospective payment methodology on classes of hospitals, beneficiaries, other payors for inpatient hospital services, and other providers; and the impact of computing averages by census division, rather than on a national basis.
  - + Legislative due date--12/31/87.
  - + Expect to submit to Congress 6/88.

o FY '89 Reports

- **Alternative Reimbursement Methodologies for Home Health Services (Section 6(e) of P. L. 414)**
  +Alternative reimbursement methodologies for home health agencies in order to determine the most cost-effective and efficient way of providing home health services.
  - + Legislative due date--1/1/85.
  - + Contract awarded to Abt Associates 12/29/83. Findings will not be available until completion of evaluation contract. Expect to submit to Congress by 9/89.

o FY '90 Report

- **Health Maintenance Organizations (Section 114 of P.L. 97-248)**
  - + Findings and conclusions of study evaluating the quantity and quality of medical care provided in HMOs and the quality of such care when provided on a fee-for-service basis, as well as an evaluation of the extent of, and reasons for, the termination by Medicare beneficiaries of their memberships in HMOs.
  - + Legislative due date--9/90.
  - + Expect to submit to Congress 9/90.

STATUS OF CONGRESSIONALLY MANDATED REPORTS

o FY '92 Report

- **Impact of Nutritional Therapy on Onset of ESRD (Section 958 of P.L. 96-499 and Section 1881(f)(3) of the Social Security Act)**
  - + Study on the extent to which the use of nutritional therapy in early renal failure can retard or arrest the progression of the disease; and the administrative. financial, and other aspects of making nutritional therapy generally available under Medicare.
  - + NIH has begun to conduct clinical trials, which will take 4-4½ years. Cost effectiveness study to be completed by HCFA after clinical trials.

ALZHEIMER'S DISEASE

Mr. **Conte**. Last year, the Secretary announced that HCFA would be putting a special emphasis on projects designed to evaluate in-home care for victims of Alzheimer's disease. What is the status of that effort?

Dr. **Desmarais**. We have a number of ongoing long-term care projects that are relevant to the plight of patients with Alzheimer's disease. I am not familiar with the specific project that you mentioned.

Mr. **Conte**. It was announced last year that special emphasis would be put on projects designed to evaluate in-home care for victims of Alzheimer's disease. Have any projects been undertaken?

Dr. **Desmarais**. We have asked for proposals to be submitted in the area of Alzheimer's disease, but have not received any. We have, however, ongoing research that involves a variety of patients, including those with Alzheimer's disease.

For example, we are conducting demonstrations in the area of respite care and cooperative care programs for families with disabled family members, including those with Alzheimer's disease. We do not have, however, a project solely focused on Alzheimer's patients.

Mr. **Conte**. Will you put in the record what you have learned thus far in terms of managing Alzheimer's patients at home.

Dr. **Desmarais**. Yes, sir.

[The information follows:]

Respite Care Projects

HCFA's Office of Research and Demonstration (ORD) has included as a priority area in their current cooperative agreements and grant solicitations projects which evaluate the effects of innovative State and local programs to promote home care by facilities or by other community support arrangements. Two applications for projects to study home care arrangements were received and are now being reviewed.

Currently, HCFA has two research and demonstration activities designed to test the effectiveness of providing assistance to families with individuals at risk of institutional care, including those with Alzheimer's disease:

1. The University of Washington project, entitled "Alternate Family Support Strategies," provides the following types of support to families:
    - Paid respite care, up to a maximum dollar limit per family, provided by a home health agency, an adult day care center or a skilled nursing facility.
    - Training of family caregivers and case management.
    - Training and case management in conjunction with paid respite care.

    Of the 541 Medicare beneficiaries and their families currently receiving services at the Seattle site of this project, 108 participants are diagnosed as having Alzheimer's disease. The final evaluation of the demonstration is projected to be completed by March 1987. Early reports have shown trends in the family preference in the use of home respite care rather than skilled nursing facility respite service. These reports also show promise in the ability of family support systems to delay or avoid the institutionalization of the frail family member.

2. The "Respite Care Co-op for Impaired Elderly" project involves a model cooperative which provides respite for family caregivers of impaired elderly. HCFA is funding the South Central Commission on Aging in Kalamazoo, Michigan for 3 years to establish several co-ops with a maximum of 10 participant families in each. The model utilizes a cooperative committee composed of impaired elderly, their family caregivers, and representatives from community agencies. The committee, with a program coordinator, works to establish policies and procedures and to recruit families to participate. In a fashion similar to babysitting co-ops, family members pay for care received with care given. No findings are available at this time.

Mr. CONTE. I frequently hear from Alzheimer's families back in Pittsfield concerning Medicare coverage. They wonder, and frankly so do I, why Alzheimer's victims cannot be covered by Medicare.

Dr. Davis told me last year that they are not covered because they only require "custodial" care, but the families I talk to tell me that "skilled care" is frequently needed. Is the only answer to go broke and let Medicaid pick up the tab or can you suggest some alternatives?

Dr. DESMARAIS. If these patients are Medicare eligible, they would have access to the traditional Medicare benefits, e.g., home health and skilled nursing facility care. However, as you know, Medicare does not currently pay for custodial care.

The Department's study of catastrophic coverage will certainly be relevant to the plight of patients with Alzheimer's disease. This study, however, won't be submitted to the President until later this year.

We are also looking at a variety of demonstrations in the area of long-term care, e.g., social health maintenance organizations, which will assist us in targeting benefit packages.

Mr. CONTE. Could you get for the record, if you have any ideas on it, how you would restructure Medicare to meet this growing problem in Alzheimer's disease?

Dr. DESMARAIS. I will submit a response for the record. We may be in a better position, however, to respond to that question later this year, when the Department's study of catastrophic coverage is completed.

[The information follows:]

STUDIES ON REIMBURSEMENT FOR LONG TERM CARE

We are performing several studies concerning care reimbursed for patients who are beneficiaries under the Medicare program and enrollees in State Medicaid programs who receive care in long-term care institutions. It is important to note that the elderly with medical problems tend to have more than one problem at any one point in time. It may not be appropriate to single out one particular condition. Patients with dementia which stems from neurologic and psychiatric etiologies also tend to have accompanying physical illness problems such as heart disease, incontinence, arthritis, and other concomitant conditions. It is for this reason that we study the Medicare and Medicaid populations as groups rather than segmenting studies by patient diagnosis.

Our demonstration efforts have been aimed at improving quality and access to care by developing reimbursement systems which pay according to the amount of service needed by the patients. We currently are funding studies in New York and Texas which use the Resource Utilization Group (RUGs) nursing home case-mix system developed by Yale University. These studies are attempting to develop reimbursement systems in which a nursing home's reimbursement rate is based on its case-mix.

As a group, patients with a primary diagnosis of dementia tend to require more assistance with activities of daily living and tend to have higher frequency of severe behavioral problems than nondementia patients. Since case-mix reimbursement systems provide higher payment rates for higher levels of disability and occurrence of severe behavioral problems, these systems can provide strong incentives for facilities to accept these patients. In addition, for patients with Alzheimer's and related dementia disorders, the progress of the disease is such that more intensive intervention is anticipated over a fairly brief period of time. A facility's rates can be revised periodically to reflect the changes in case-mix. Thus, patients who have increased levels of disability will receive increased levels of payment consistent with their needs.

If successful, case-mix payment systems will provide radical improvements in the ability to identify patients needs, and to direct resources to patients based on those needs. Patients requiring additional care, whether because of dementia or physical impairment, will be able to receive support consistent with those relative needs. This case-mix approach represents a significant improvement in our ability to direct resources to those most in need.

Mr. CONTE. Good.

PROPOSED FY 1986 RESCISSIONS AND DEFERRALS

Mr. NATCHER. Now, Doctor, in addition to the sequestration, the President's budget proposes fiscal year 1986 rescissions in the program management account totaling $9,401,000. Explain, if you will, to the committee why these funds are not needed; why not, Doctor?

Dr. DESMARAIS. Mr. Chairman, the request reflects the decision made by the Administration to seek funding levels in agreement with the President's original budget request. The rescissions and deferrals in the research and Medicare contractor budget activities would take us back toward the President's original request for fiscal year 1986.

Mr. NATCHER. Will the reduction in trust funds included in the rescission number R-86-43, and also discussed in deferral D-86-57 be treated as a rescission? That is, will the money be released once the rescission expires, Doctor?

Mr. DENNIS WILLIAMS. I think the answer to that question is, because the rescissions in this particular account involve trust fund monies, there is technically no direct rescission of trust fund money.

Therefore, we have deferred the money, but we would treat it, it is our intention to treat it as a regular rescission, so that if it is not approved, we would spend the money.

Mr. NATCHER. All right.

Now, Doctor, last year, the President's budget requested $935 million for Medicare contractors. This committee added 37 million to that request, and let me read just a part of the report for you, Doctor.

I quote,

> While the committee fully supports efforts to manage the contractor program in the most effective manner, it does not believe that the fiscal year 1986 budget estimate is realistic.
>
> The number of claims to be processed is expected to increase by 7 to 10 percent, and wages of contractor staff are expected to increase 4 to 5 percent.
>
> In contrast, the President's proposal calls for a 1-percent net increase in the appropriation for this activity. The committee has, therefore, added $37 million to the request.

Now, your rescission, as you know, Doctor, eliminates this increase entirely. Tell us why you think we were wrong, Doctor.

Dr. DESMARAIS. First, the deferral is for only $2.1 million of that total. The remainder is a direct result of the Gramm-Rudman-Hollings sequestration order. It is true that the committee and the Congress did appropriate additional funds, but much of the reduction is the result of sequestration, and the remainder, i.e., $2.1 million, is included in the deferral we have submitted to the Congress.

We believe that we can properly manage the Medicare contractors at the $920 million level, plus the contingency fund. This is the level we planned on, and continue to plan on, as we await congressional action on our deferral request. It is true, however, that claims will not be paid as rapidly as they have been.

Mr. NATCHER. Doctor Desmarais, as you know, not only in HCFA, but in other agencies and Departments of the government, after hearings before our committee, we sometimes decide a little increase is necessary, and we put it in. It just so happens that is the amount that you always want to rescind Doctor, OMB always wants to rescind the little increase that we believe is necessary.

In the end, we generally correct it by rejecting the rescission. Now, I think Mr. Conte would agree with that, wouldn't you, Mr. Conte?

Mr. CONTE. As day follows night.

Mr. NATCHER. Now this committee made its recommendation on the assumption that the number of claims would increase by 7 to 10 percent in 1986. What is the actual increase being experienced in 1986, and if you would also, tell us what level of increase in the number of claims you are expecting in 1987, Doctor.

Dr. DESMARAIS. In fiscal year 1986, the increase is estimated to be 6 percent for intermediary claims and 8.1 percent for carrier claims. In fiscal year 1987, we are currently projecting an increase of 6 percent for intermediary claims and 10.1 percent for carrier claims. Mr. Chairman, we are continuing to monitor the volume of claims, especially on the Part B side, to see whether the increases reflect a trend or are simply short-term phenomena.

PROPOSED ELIMINATION OF ESRD NETWORK COORDINATING COUNCILS

Mr. NATCHER. The President's budget again proposes legislation to terminate the End State Renal Disease Network Program. Why are you opposed to this program, Doctor?

Dr. DESMARAIS. Mr. Chairman, we continue to believe that it is a duplicative program. We already have survey and certification activities and monitoring by our regional offices in this area. For this reason, the Administration has repeatedly asked for a statutory change to eliminate the councils.

Mr. NATCHER. Have any formal evaluations been conducted of the network program?

Dr. DESMARAIS. I am not aware of any, sir.

Mr. NATCHER. While there is no rescission proposed for the networks, we keep hearing rumors that a major restructuring of this program may be proposed in 1986. What are your plans for this program in 1986?

Dr. DESMARAIS. We have a regulatory proposal under development that would allow us to reduce the number of councils to the minimum necessary, possibly to as low as two. However, the reconciliation bill passed by the Congress and awaiting the President's signature has a relevant provision that would allow consolidation, but to no less than 14 organizations. This would permit a considerable reduction from the existing 32 councils. If the reconciliation bill is enacted, its direction will be followed in carrying out the consolidation.

FY 1987 HCFA STAFFING LEVEL

Mr. NATCHER. The President's budget request proposes to reduce staffing at HCFA by another 143 full-time equivalents in 1987 to a level of 3757 full-time equivalents. How was this staffing proposal developed?

Dr. DESMARAIS. We determined the number of employees that we would need and identified ways to reduce size of the workforce through a variety of administrative efficiencies. The reduction of 143 FTEs will be achieved through attrition. We do not foresee any problems since, under the plan for reduction, we will still be able to fill critical vacancies.

Our programs are undergoing enormous changes. Some of the staff needed in the past, e.g., accountants, when there was more reliance on cost-based reimbursement, are less important today. The reduction in the number of staff should have no impact on our ability to discharge our responsibilities.

Mr. NATCHER. According to our records, staffing at the HCFA has declined by more than 20 percent over the last five years. Doctor, we worry that the Office of Management and Budget may be going too far in reducing staff at your agency.

Are you convinced that you have enough people to administer these complex programs, Doctor?

Dr. DESMARAIS. Absolutely, sir.

Mr. NATCHER. No question in your mind?

Dr. DESMARAIS. No question in my mind at all.

HCFA FACILITIES IN BALTIMORE

Mr. NATCHER. Doctor, earlier this month, your office submitted a report to this committee on facilities problems in Baltimore. We will insert that report in the record at this point.

[The information follows:]

REPORT ON THE BALTIMORE, MARYLAND FACILITIES OF THE HEALTH CARE FINANCING ADMINISTRATION

This is submitted in response to a request contained in House of Representatives Report 99-289 from the Committee on Appropriations for a report on the adequacy of the facilities currently occupied by the Health Care Financing Administration (HCFA) in Baltimore, Maryland and on alternatives to these facilities which might be pursued by the Congress.

Since its creation in March 1977, HCFA has been housed in dispersed locations in the Baltimore metropolitan area. HCFA's headquarters currently utilize some 491,500 square feet of space in nine separate buildings in the Woodlawn section of Baltimore County. Approximately 169,000 square feet are in the Government-owned East High Rise and East Low Rise Buildings in Woodlawn, and 316,000 square feet are in seven leased buildings. Eight of these are office buildings and the ninth is a warehouse. HCFA shares approximately 5,800 square feet of joint use space in small blocks in five scattered buildings in the Woodlawn complex.

Many of the leased buildings lack ideal office space features and employee conveniences, i.e., food service, modern heating, ventilation and air conditioning systems, handicapped accessibility, security, credit union, employee activities association, access by public transportation, and health facilities. In addition, the dispersal of operational sites inhibits the operational efficiency of the organization as a whole.

In view of these recognized liabilities, in June 1980, the Secretary of this Department requested the assistance of the Administrator of the General Services Administration (GSA) in housing HCFA in a single site. Staff level discussions and planning ensued for several years. In 1985, we were advised by GSA that limited funds and the relatively low cost of rental space at the Woodlawn site led GSA to recommend that the status quo be maintained for at least 5 years.

In response to the Appropriations Committee's request, we have made a current review of the possibilities for housing HCFA and have considered five alternatives: building a new facility, relocating HCFA to existing Federal space, purchasing an existing facility not currently occupied by the Government, leasing such a facility, and maintaining the status quo. We enlisted the expertise of GSA in compiling the information required for our review.

GSA scrutinized the Federal space in the Baltimore metropolitan area and determined that there are no Government-owned buildings available for HCFA's use.

REPORT ON THE BALTIMORE, MARYLAND FACILITIES OF HCFA

GSA also reviewed the real property currently available for purchase and found no buildings of sufficient size in the area that would satisfy HCFA's space requirements.

Three alternatives remain: Federal construction of a facility, leasing a single, large existing structure or maintaining the status quo.

If a long term lease of 491,500 square feet in a building to house HCFA in a consolidated location were entered into, the annual rental would be expected to be $11,058,750, fully serviced. The 30-year present value life-cycle cost of this alternative is $105,913,000.

The estimated cost to construct a 491,500 square foot Federal building to consolidate HCFA activities in the Baltimore area is $60,737,000 assuming that design were to begin in 1986. The new facility would include a full-service employee cafeteria, health unit, conference-training facilities, special files storage, microfilm storage, automated data processing areas, copy center, and mail conveyor system. The 30-year present value life-cycle cost of the alternative is $81,820,000.

If HCFA continues to be housed in its current locations, or in similar replacement space as current leases expire, the 30-year present value life-cycle cost of maintaining the status quo alternative is $77,194,000. This relatively low figure is possible because the Woodlawn leases are at or below current market rental rates, averaging $12.50 per occupiable square foot.

Cost analyses for FY 87 and for a 30-year life cycle for these three alternatives follow.

The firmest base for estimating the FY 87 costs of the status quo alternative is the FY 86 Standard Level User's Charge (SLUC) increased by an inflation factor for FY 87. GSA has determined that 7.5% will be the FY 87 inflation factor. When HCFA's FY 86 SLUC charge of $5,260,000 is increased by 7.5%, the resultant FY 87 SLUC charge is $5,655,000. HCFA will also require additional services costing $350,000 raising the total to $6,005,000.

The only FY 87 costs associated with constructing a new Federal building would be $75,000 for engineering and design work for the new structure.

If the lease option were pursued, the time required for acquiring the building and completing the extensive renovations which would be required would only call for the commitment of $75,000 for engineering and design work.

REPORT ON THE BALTIMORE, MARYLAND FACILITIES OF HCFA

The costs for the two options above would be in addition to the SLUC charges which HCFA would continue to pay during FY 87 for its current housing.

Thirty-year life cycle cost estimates for the three options are outlined below:

30-Year Life Cycle

	STATUS QUO	LEASE	CONSTRUCTION
Data: Term used (years)	30	30	30
Occupancy	1986	1988	1990
Square footage in analysis	491,500	-	-
Leased	-	491,500	-
Government-owned	-	-	491,500
PRESENT VALUE COSTS (x$1000)			
Net rent	$38,449	$66,275	$ -
Construction cost	-	-	37,329
Land	-	-	568
Management, Design	-	-	4,056
Less: Building reversion	-	-	(4,708)
Land reversion	-	-	(132)
Interim housing	-	13,165	15,794
Major repairs and Tenant alterations	3,006	3,237	5,840
Maintenance	4,453	-	2,981
Service & Utilities	26,394	19,954	16,335
Property taxes, Insurance	3,537	2,572	2,369
Property Management	1,355	710	1,388
Total Present Value Cost	77,194	105,913	81,820
PROPOSAL VALUE			$-77,194
PRESENT VALUE COST ADVANTAGE		$ 4,626	
OR			
EQUIV. ANNUAL COST ADVANTAGE		$ 373	

FACTORS USED (Today's Values):
- Net Rent (Status Quo): $10.20/osf
- Net Rent (Lease): $18.00/osf
- Operating Cost: $4.50/osf
- Constr. Cost to Build New Bldg.: $82.00/gsf
- Land Cost: $650,000
- Discount Rate: 7%

REPORT ON THE BALTIMORE, MARYLAND FACILITIES OF HCFA

The above data demonstrate that maintaining the status quo would afford a $4,626,000 30-year present value cost advantage over constructing a single site facility and a $28,719,000 30-year present value cost advantage over leasing a site.

Were the current contracts for leased space in Baltimore to be terminated early in order to move HCFA into a single site, the Government would incur significant termination costs. The leases for all seven leased buildings were negotiated within the last year. Each lease provides for Government termination earlier than the final expiration date, but the Government would still be required to pay significant rental costs even if early termination rights are exercised. The earliest termination date for each lease is indicated in the third column below:

Leased Building	Annual Rents	Earliest Termination	Final Expiration
Lyon	$ 501,397	08/31/89	08/31/94
Professional	$ 99,011	02/28/87	02/28/91
1705 & 1717 Equitable	$ 595,030	11/30/88	
Meadows East	$1,102,077	05/25/89	05/25/90
Warehouse	$ 202,816	11/20/90	11/20/98
Oak Meadows	$ 458,105	10/28/87	10/28/91

It is clearly in the best interest of the Government to continue the status quo housing of HCFA. The benefit of the significant cost advantages outlined above will be obtained and substantial lease termination costs will be avoided.

HCFA has taken certain steps to ameliorate the inefficiencies inherent in the continuance of its dispersed operations. Word processors in each building, except the warehouse, are linked in a telecommunications network to avoid any unnecessary exchange of paper between facilities, and HCFA is experimenting with a state-of-the-art telephone messaging system. Its ability to send, receive and store messages in the caller's own voice shows great promise for reducing the need for staff to travel between buildings for face-to-face meetings.

To provide health care to employees in leased buildings lacking a health unit, HCFA has instituted a visiting nurse program in which health unit nurses make scheduled visits to these buildings.

REPORT ON THE BALTIMORE, MARYLAND FACILITIES OF HCFA

In deference to the overriding interests of the Federal Government as a whole, this Department endorses maintaining the status quo housing of HCFA in Baltimore. As staffing changes occur in the future and program priorities shift, we will be vigilant for opportunities within this Agency to further consolidate HCFA and eventually achieve a single site which houses not only HCFA but also non-HCFA support groups, i.e., the Office of the Inspector General, the Office of General Counsel, and the General Accounting Office. We anticipate that housing these HCFA and non-HCFA personnel at a single site would require a total of 530,000 square feet.

Mr. **Natcher**. Would you describe for us, please briefly, the condition that these facilities are in. What do we have here, Doctor?

Dr. **Desmarais**. We have made a number of changes in the last few years to consolidate our staff into fewer buildings at the Woodlawn complex west of Baltimore. We have moved out of four buildings that were of the poorest quality and have consolidated our staff in the remaining buildings.

Mr. **Natcher**. This report makes the following points, and I quote: "The current buildings lack modern heating and ventilation, handicapped access, security and access to public transportation. The dispersal of sites inhibits operational efficiency of the medicare and medicaid program."

Tell us now, Doctor, if you will, if these statements are accurate, and if so, how do you propose to correct these deficiencies?

Dr. **Desmarais**. We have made tremendous progress in the last few years by moving out of several buildings, consolidating our staff in the remaining buildings and achieving efficiencies in space utilization through the use of systems furniture. We have also made tremendous progress in modifying the remaining buildings to make them more accessible to the handicapped. We will continue to examine ways to make further improvements.

Mr. **Natcher**. What would be the additional cost to the Federal Government to construct a new facility compared to the cost of maintaining the status quo?

Dr. **Desmarais**. I understand that the GSA has estimated that the cost of constructing a building would be about $60 million for a 30-year present value of $82 million, whereas, to maintain the status quo, the 30-year present value would be $77 million.

Mr. **Natcher**. Mr. Hoyer, I yield to you.

Mr. **Hoyer**. Based upon that, what is the plan?

Dr. **Desmarais**. The agreement we have reached, with GSA, is to stay with the status quo for the next five years.

Mr. **Hoyer**. What does that mean for the next five years?

Dr. **Desmarais**. At that point, we would reevaluate our situation. We have moved out of the poorest quality buildings, and have substantially modified the office space that we now use in the Woodlawn complex.

Mr. **Hoyer**. Okay, and pursuant to the chairman's question, you will be providing a fuller explanation of that, is that correct?

Dr. **Desmarais**. I believe the Chairman entered it into the record.

PROPOSED GEOGRAPHIC CAPITATION IN MARYLAND

Mr. **Hoyer**. Dr. Desmarais, HCFA has been negotiating with Blue Cross and Blue Shield of Maryland on a demonstration project for the Maryland medicare program.

The Maryland delegation has written with reference to that. What is the status of that project?

Dr. **Desmarais**. This proposal involves geographic capitation. The Administration supports capitation, but there are a variety of approaches. We have not decided to conduct a test of geographic capitation in Maryland or elsewhere. A decision may be made later this year. There are differing views within the Administration about the wisdom of this particular form of capitation. No decision will be made until the arrival of a permanent Administrator at HCFA. We have had discussions about the possibility of geographic capitation in a number of States.

Mr. **Hoyer**. Will you keep the medicare delegation informed?

Dr. **Desmarais**. Absolutely. We have recently offered to provide you and others with briefings as needed.

HCFA STAFFING LEVELS

Mr. **Hoyer**. On the personnel question that has been asked of you, does HCFA have a plan which says how many employees it will take in order to effect the duties that are assigned to you? You have said that the reduction in FTEs will not in any way adversely affect the delivery of services for which you are responsible.

What is that FTE level?

Dr. **Desmarais**. The long-range staffing level is projected to be 3680 FTEs. However, I must say, it will depend upon whether or not we get additional duties. We have to continue to evaluate our staffing needs as we go along.

Mr. **Hoyer**. I understand that. We can compare those. You said long-term. What is your FTE at this point in time?

Dr. **Desmarais**. The on-board strength is now 3880.

Mr. **Hoyer**. That is your FTE, actual bodies on board?

Dr. **Desmarais**. Yes, sir, as of March 1st.

Mr. **Hoyer**. Yes, sir to what? That is your FTE, I take it?

Dr. **Desmarais**. On-board strength.

Mr. **Hoyer**. Actual bodies?

Mr. **Gamble**. Yes, sir.

Mr. **Hoyer**. I always have this confusion comparing apples and oranges. What is that as it relates to the FTE level? Doesn't OMB deal with FTEs, not actual bodies.

Mr. **Gamble**. Yes, sir.

Mr. **Hoyer**. What is OMB using as their FTE level for you?

Mr. **Gamble**. The current ceiling for 1986 is 3900.

Mr. **Hoyer**. The ceiling is interesting.

Mr. **Gamble**. The current FTE equivalent of on-board personnel is 3844.

Mr. **Hoyer**. 3844 is the figure OMB would say that you have now?

Mr. **Gamble**. Yes.

Mr. **Dennis Williams**. HCFA is authorized to use up to 3900 FTEs in 1986. The FTE equivalent of the on-board staff today is about 3844, but they have authority to use up to 3900 in 1986.

Mr. **Hoyer**. What is the projected 1987 level?

Mr. **Gamble**. Our 1987 ceiling is 3757, which is our projected usage.

Mr. **Hoyer**. How often in the last 10 years have you met your projected usage? Or the last five or three years?

Mr. **Gamble**. I don't believe we have exceeded our projected usage in the last several years.

Mr. **Hoyer**. It is sort of a reversal, you understand. I am concerned not with your exceeding it, but with OMB not letting you get to where you can't deliver your services.

I presume you have not exceeded the ceiling, because Mr. Stockman or Mr. Miller wouldn't let you. How often have you met it in the last five years?

Mr. **Gamble**. I don't have that information available.

Mr. HOYER. Provide that for the record.

[The information follows:]

FTE UTILIZATION (FY 1982-85)

	Ceiling	FTE usage	Difference
Fiscal year:			
1982	4,483	4,495	+12
1983	4,092	4,090	−2
1984	4,100	4,055	−45
1985	3,980	4,020	+40

Mr. HOYER. If we are talking about 3757, Doctor, is that the level of employees that you need to provide the services for which you are currently responsible?

Dr. DESMARAIS. Yes, that number of personnel will definitely be sufficient to discharge our responsibilities.

Mr. HOYER. Do you expect any efficiencies to occur, or are any planned over the next three or four years, which will affect that FTE requirement, under the present existing scenario?

Dr. DESMARAIS. Automation helps us to use our personnel more effectively. Our programs are also changing. For example, as we move from cost-based reimbursement to prospective payment and capitation, accountants become less important.

Mr. HOYER. Doctor, I don't think that answer is responsive and I don't mean to criticize you. Would you provide for the record what the plans of HCFA are with respect to FTE requirements and utilization over a projected period of 36 to 60 months, three to five years?

Dr. DESMARAIS. Yes, Mr. Hoyer.

[The information follows:]

FTE REQUIREMENTS AND UTILIZATION (FY 1986-90)

	Ceiling	Projected FTE usage
Fiscal year:		
1986	3,900	3,881
1987	3,757	3,757
1988	3,680	3,680
1989	3,680	3,680
1990	3,680	3,680

ALZHEIMER'S DISEASE

Mr. HOYER. If I might just ask a couple more questions?

I am very concerned, and I believe the committee is very concerned, about reimbursement for services related to treatments for Alzheimer's disease.

I know we have had a study on that. Tell me what the current status of that is?

Dr. DESMARAIS. The Department has had a number of task forces on this issue. We are also conducting a number of demonstrations in the area of long-term care that are relevant to patients with Alzheimer's disease. We have not changed the Medicare program in a way to provide custodial care as part of a benefit package for patients with Alzheimer's disease. However, the Department's study of catastrophic coverage should be relevant to the needs of Alzheimer's patients.

Mr. **Hoyer**. I understand that Mr. Conte, who has been very involved in this matter, has asked this question previously. Has there been any change in the last three years with respect to Alzheimer's disease, how it is treated by HCFA?

Dr. **Desmarais**. Mr. Hoyer?

Mr. **Hoyer**. It is not a treatable disease, in the definitions that we have been using.

Dr. **Desmarais**. We are conducting Medicare demonstrations to examine ways to construct a benefit package that includes respite care. We also have the hospice program, for which some patients with Alzheimer's disease would qualify. In the Medicaid program, there are home and community-based waivers, which may assist patients with Alzheimer's disease.

Mr. **Hoyer**. Okay.

Dr. **Desmarais**. There has not been any dramatic change in the current policy. Medicare remains an acute care program, and Medicaid does not pay for chronic or custodial care. Many patients with Alzheimer's disease admittedly require custodial care.

Mr. **Hoyer**. The problem continues to be the treatability of the illness, that is the shift point. If it is a disease that can be treated with a view toward amelioration of the condition, it is a reimbursable?

Dr. **Desmarais**. Yes, that goes back to the acute care orientation of the program.

Mr. **Hoyer**. Doctor, I would appreciate it if you could provide my office with any updated information or reports. I am sure Mr. Conte would appreciate it as well.

Dr. **Desmarais**. Yes, sir.

Mr. **Hoyer**. Thank you very much, Doctor. I have some other questions, but I will yield back to the Chairman.

FY 1987 BUDGET REQUEST FOR MEDICARE CONTRACTORS

Mr. **Natcher**. Mr. Conte?

Mr. **Conte**. Doctor, I have to say that I am a little worried about your budget request for the Medicare contractors, and the effects of the Gramm-Rudman-Hollings sequester on this account. First of all, tell me, was the 4.3-percent reduction taken evenly between the various functions in the Medicare contractor budget?

Dr. **Desmarais**. No, I believe they were not. We decided to take a bit more money out of the audit function and other places, rather than from claims processing. We were trying to provide as much money as possible for claims processing.

Mr. **Conte**. Does the $2.1 million rescission you are proposing for this account in fiscal year 1986 all come from the claims processing activity?

Dr. **Desmarais**. It does not come out of claims processing solely.

[The following was provided for the record:]

IMPACT OF PROPOSED FY 1986 DEFERRAL ON MEDICARE CONTRACTORS

During the course of the hearing, a question was inadvertently answered incorrectly. An explanation follows:

The $2.1 million deferral in the Medicare Contractors' account is proposed to be taken entirely from the claims processing activity. It is the Gramm-Rudman-Hollings reduction that will be taken across all Medicare Contractor activities.

Mr. **CONTE**. What has been the annual increase in actual claims since fiscal year 1983, and what is your projection on the number of claims that will be filed in fiscal year 1987?

Dr. **DESMARAIS**. I don't have figures back to 1983. In fiscal year 1985, the increase in intermediary claims was 19.4 percent; in carrier claims, 18.3 percent. In fiscal year 1986, the increase in intermediary claims is projected to be 6 percent and, in carrier claims, 8.1 percent. In fiscal year 1987, it is projected to be 6 percent and 10.1 percent, respectively.

Mr. **CONTE**. You know, we have been reading a lot lately about the increase in the time it takes to actually pay benefits. For how many years now has this time been increasing? Does this trend worry you?

Dr. **DESMARAIS**. We would be happy to provide that for the record. There has been gradual increase over time. However, in fiscal year 1986, when we expect to add a week's work on hand to both the Part A and Part B workloads, the increase will be dramatic. This raises the question of how rapidly we ought to make payment on claims. In accordance with good business practice, payment should be made on or about the 30th day after the claim is received. The Inspector General has in fact suggested that we have been paying claims too fast. If the Prompt Payment Act were applicable, although technically it is not, we would be in violation of it for having paid claims too quickly.

[The following was provided for the record:]

CLAIMS PROCESSING TIMES

Provided below is a chart depicting the average number of days of work on hand under Part A and Part B of Medicare.

	Part A	Part B
Fiscal year:		
1983	4.3	5.7
1984	4.8	7.1
1985	9.0	11.0
1986 (est.)	16.0	18.0

Mr. **CONTE**. Why would they criticize you for paying too quickly?

Dr. **DESMARAIS**. Because of interest lost to the Medicare trust funds.

Mr. **CONTE**. But if you don't pay quickly, won't the poor patient get harassed by the doctor?

Dr. **DESMARAIS**. Well, I am not so sure that would happen. Physicians are accustomed to not getting paid promptly by non-Medicare patients, because private insurance does not pay too quickly.

Mr. **CONTE**. I don't know about that. I have had the habit, and I got it from my parents, that the minute a bill comes in, I just write that check, that same day, and a lot of people do the same. They don't want to have any debts.

MEDICAL EDUCATION

Anyway, you are proposing to eliminate all payments for direct medical education subsidies. In addition, the Department's budget also wants to zero our all funding for the health professions programs. Why the double hit, Doctor? Don't we derive some benefit from having these young doctors training in the hospitals?

Dr. **Desmarais**. Yes, and we will continue to pay for the stipends and training benefits of interns and residents. We will not pay for associated classroom costs and certain other medical education costs. We will also not pay for hospital-affiliated nursing and allied health training programs.

I must add that the reconciliation bill that passed last evening has a provision which if enacted, will require us to change our thinking in this area. In fact, I believe the provision will overturn an existing regulation that applies to the payment of direct medical education costs.

Mr. **Conte**. Tell us now what the difference is between reconciliation and where we are now?

Dr. **Desmarais**. Well, I believe the reconciliation provisions will not allow us to eliminate payments for allied health and hospital-affiliated nursing education programs, and will also require per resident payment for medical education. I am not sure about the exact budgetary impact at this moment. We have to analyze further the provisions of the bill.

MEDICAID PROPOSALS

Mr. **Conte**. Under the Medicaid program, you are proposing to eliminate all special administrative matching rates. Why does the program currently match some States at rates higher than 50 percent?

Dr. **Desmarais**. There is a statutory formula that determines match rates for medical assistance costs. It takes into account the relative economic health of individual States. With regard to certain administrative costs, Congress has established, over time, special match rates. For example, costs associated with the development and operation of Medicaid Management and Information Systems are matched, respectively, at 90 cents and 75 cents on the dollar.

Mr. **Conte**. How many States would be affected by your proposal to bring all rates down to 50 percent, and can you list those for the record?

Dr. **Desmarais**. All States will be affected, since virtually every State receives some form of enhanced funding for various types of administrative costs.

With regard to medical assistance payments, the Federal match rate ranges from 50 to 78 percent. These rates are not affected.

Mr. **Conte**. The budget also proposes to limit Federal Medicaid payments at $23.6 billion in fiscal year 1987. What would be the current services estimate for these Federal costs in fiscal year 1987?

Dr. **Desmarais**. Current services would be $26 billion before applying the cap. The cap reduces the amount by $1.3 billion. A one-time hardship pool of $300 million would be available, however, to facilitate the transition.

Mr. **CONTE**. Does that estimate you just gave me include the regulatory initiatives you are proposing?

Dr. **DESMARAIS**. Yes, it does.

Mr. **CONTE**. Provide something in the record which would not include those initiatives.

Dr. **DESMARAIS**. Yes, sir.

[The information follows:]

CURRENT MEDICAID SPENDING PROJECTIONS

[Dollars in thousands]

	FY 1986	FY 1987
November States' estimates (MAP & A&T)	$25,176,348	$27,197,128
State certification	44,811	48,601
Fraud control units	42,931	44,153
Total unadjusted estimates	25,264,090	27,289,882
Less: Current service adjustments:		
Financial adjustments	−573,438	−781,423
TPL savings	−65,000	−175,000
Medicaid initiatives:		
New TPL effort		−100,000
LTC facility disallowances		−75,000
MQC disallowances		−160,100
Prior year claims	+60,000	
Total current spending projections	24,685,652	25,998,359
Less: Unobligated balance—start of year	−307,215	
Add: Unobligated balance—lapsing	+62,047	
Total current services appropriation	[1] 24,440,484	25,998,359

[1] Includes $542,484 shortfall authority.

Mr. **CONTE**. Wouldn't the proposal you have effectively penalize those States that have recently made efficiencies in their programs, or for one reason or another were forced to cut back in the base year of fiscal year 1985?

Dr. **DESMARAIS**. It will have differing impacts on the States. We will be proposing a variety of changes to give States additional flexibility to meet the financial controls of the cap.

Mr. **CONTE**. You say that they would have increased flexibility, but for States that have recently made reforms, wouldn't further changes effect the quality and accessibility of services?

Dr. **DESMARAIS**. The cap will encourage States to use a variety of means to manage their Medicaid dollars. They may use home and community-based waivers to reduce institutional care, or institute reimbursement changes, similar to those California and Illinois have made, or impose co-payments as a way of controlling unnecessary use of emergency rooms and other services.

Mr. **CONTE**. We had a lot of questions raised last year in Committee over HCFA's regulations for prescription drug reimbursement. What is the new regulatory policy you are putting forward this year?

Dr. **DESMARAIS**. We have not settled on a specific regulatory policy. We are planning changes in the way Medicaid pays for drugs, which generate an estimated savings of $38 million in fiscal year 1987. In this regard, there are several approaches. One would be to refine the existing maximum allowable cost program. Another would be to move to a pharmacist incentive plan, which would encourage pharmacists to prescribe generic drugs in place of more expensive name-brand drugs in situations where the Food and Drug Administration has determined that the drugs are bioequivalent.

Mr. CONTE. I think that is a pretty good idea. I just had an experience on Saturday when my wife got some prescriptions and the druggist said that would cost her $50, but she could get the generic brand for $26. So she called the doctor to see whether he would go along with that, and we saved about $24.

Thank you, Mr. Chairman.

MEDICARE CLAIMS PROCESSING

Mr. NATCHER. Doctor, for the record, include a chart showing the average processing time for medicare Part A and Part B claims from fiscal year 1983 to fiscal year 1987, and also include comparable data for private health insurance claims.

Dr. DESMARAIS. We may not have information on private health insurance claims. We will submit it, if we do. Generally insurance companies don't disclose that information to us. We will submit what we have.

[The information follows:]

AVERAGE CLAIMS PROCESSING TIMES

Provided below is a chart depicting the trend in the average number of days of work on hand under Part A and Part B of Medicare. Comparable data on private insurance claims is not currently available.

	Part A	Part B
Fiscal year:		
1983	4.3	5.7
1984	4.8	7.1
1985	9.0	11.0
1986 (est.)	16.0	18.0
1987 (est.)	22.0	22.0

MEDICAID DRUG CLAIMS

Mr. NATCHER. The committee has been approached by representatives of several pharmaceutical organizations regarding the cost and complexity of processing drug claims under the medicaid program.

How serious is this problem?

Dr. DESMARAIS. Well, of course, States have a great deal of flexibility in the way they manage their programs, and they have a variety of mechanisms in place. The issue you may be referring to is the dispensing fee. The States determine the costs of dispensing the drug, which should include compensation for preparing and submitting the claim. Pharmacists have criticized the level of the dispensing fee over time.

Mr. NATCHER. These groups have suggested that the Federal Government consider a drug voucher system or drug credit card system for medicaid.

What is your reaction?

Dr. DESMARAIS. A voucher system was used in Alabama in the 1970's, but it was discontinued due to a variety of problems. Pharmacists ended up being overpaid. I believe New York is beginning to study a credit card approach under a pilot program. I understand several other States are interested. We have no immediate plans, however, to mandate the use of such a payment mechanism.

EQUIPMENT COSTS

Mr. NATCHER. If you will turn now to page 67 of the budget justifications for the program management account. This table shows expenditures of almost $17 million, Doctor, for equipment between 1985 and 1987.

What types of equipment are you including in this account? Go right ahead, Mr. Gamble.

Mr. GAMBLE. Primarily, computers and word processing units are included.

Mr. NATCHER. As recently as 1985, your request for equipment in this account was for less than $200,000 per year, why has there been such a large increase?

Mr. GAMBLE. In the fiscal year 1985 budget request, the number was approximately $200,000. In reviewing the fiscal year 1985 operating plan in January of last year, it became apparent that the $200,000 estimate did not reflect what the agency had been spending or what we actually planned to spend for fiscal year 1985. We revised the numbers for the fiscal year 1986 budget submission to show a proposed level of about $2.6 million. Subsequently, during the year, we sent the committee a notice that we intended to purchase a new central processing unit for the HCFA Data Center for $3.1 million. This unit was procured during the year and accounts for most of the difference between the $2.6 million estimate in January of last year and the $8.8 million that was ultimately spent. The remaining balance was for procurement of systems furniture, additional personal computers and upgraded communications capability at the HCFA Data Center. In addition, we did an analysis that showed we could save money by buying out leases on existing word processing units.

Mr. NATCHER. We have been told you may be considering the purchase of a large number of personal computers in fiscal year 1986 or 1987. Tell us, if this is true, where the funds for this purchase shows in your budget.

Dr. DESMARAIS. We are planning to buy 236 personal computers in fiscal year 1986 and another 200 computers in fiscal year 1987.

Mr. NATCHER. Where do you show that now?

Dr. DESMARAIS. It is reflected in the equipment account.

Mr. NATCHER. What types of controls exist within HCFA on the purchase of personal computer hardware and software, as far as types of controls?

Dr. DESMARAIS. All purchase requests are managed through the Bureau of Data Management and Strategy, which determines needs and priorities. Because the process is centralized, we have a very good idea of what is going on across the agency.

MEDICAID PROPOSALS

Mr. NATCHER. Your budget again proposes numerous legislative changes in the appropriation language for the Medicaid account. Why are you submitting them to this committee rather than to the authorizing committee? Are you afraid of the authorizing committee, Doctor?

Mr. Williams.

Mr. DENNIS WILLIAMS. We are submitting legislation to the authorizing committee to do that. HCFA has no control over the formatting of the budget. OMB has suggested we also seek that authority in the budget.

PROPOSED MEDICAID CAP

Mr. NATCHER. One of these proposals would cap Federal payments for benefit costs. How would this cap work?

Dr. DESMARAIS. We would calculate each State's share of Medicaid expenditures in fiscal year 1985, and then distribute the money available in fiscal year 1987 on the same proportional basis. In addition, we have provided a $300 million one-time fund to facilitate the transition. A State unable to live within the capped amount, while making a good effort to do so, could apply, under certain terms and conditions, for a portion of the $300 million.

Mr. NATCHER. As we understand this proposal, it would adjust Federal payments in future years to reflect price changes, but no adjustment will be made for numbers of beneficiaries or intensity of services.

Why have these factors been included, Doctor?

Dr. DESMARAIS. Given the variation across State programs, we decided to use the medical care component of the CPI as our updating mechanism.

Mr. NATCHER. Mr. Hoyer.

HARVARD STUDY ON MEDICARE

Mr. HOYER. Two questions, Doctor.

Has HCFA had an opportunity to review the Harvard study, "Medicare, Coming of Age," a review of medicare?

Dr. DESMARAIS. We have reviewed the report in the New England Journal of Medicine as well as the broader study.

Mr. HOYER. I presume that this would be factored into the President's request for catastrophic illness?

Dr. DESMARAIS. All sources of information will be used. We expect a great deal of input from the private sector and all interested parties.

Mr. HOYER. The end of the year, December?

Dr. DESMARAIS. The Secretary's current plan is to submit the study to the President by the middle of December.

IMPACT OF PPS ON TEACHING HOSPITALS

Mr. HOYER. What is the effect of the DRGs on the reimbursement for teaching hospitals?

Dr. DESMARAIS. That is a fairly complex question. Teaching hospitals get an additional payment for each Medicare discharge depending on the size of their intern-resident program. With respect to the disproportionate share issue, we have not yet made an adjustment, although we have been studying it. We have been examining ways of defining a disproportionate share hospital, and what adjustment should be made. Of course, any adjustment would be restricted to the payment for Medicare cases only. The reconciliation bill passed last evening includes a provision that mandates a disproportionate share adjustment. This provision applies to those hospitals which have a significantly disproportionate share of low-income patients. The definition in the bill would apply to over 1,000 hospitals in the country, each of which would be given some additional payment.

PREMATURE DISCHARGES

Mr. **Hoyer**. It also appears some hospitals are discharging patients when they have reached the maximum reimbursable level and before they are medically stable. In Baltimore, for instance, patients are being discharged from community hospitals and are being sent to the Veterans' hospital.

Has HCFA looked at this?

Dr. **Desmarais**. We are checking to see whether patients are being prematurely discharged. I am not familiar with the specific instance you mentioned, i.e., patients being sent to the VA hospitals. Certainly, if someone is eligible for VA benefits, it might be appropriate. Overall, we are not finding a systemic problem of premature discharges. There have been individual cases which we are moving aggressively to address.

Mr. **Hoyer**. But there is no systemic problem, no trend there?

Dr. **Desmarais**. No systemic problem, and we have taken every opportunity to inform both providers and beneficiaries that prospective payment is built on the law of averages. The cost of some cases will be above the average and that of other cases, below. One of the myths is that costs have to be below average. We are trying to dispel that myth.

IMPACT OF GRAMM-RUDMAN-HOLLINGS

Mr. **Hoyer**. Doctor, lastly, as a result of Gramm-Rudman, it is my understanding there has been a 1-percent reduction in reimbursements to hospitals under HCFA-DRG model?

Dr. **Desmarais**. The 1-percent reduction applies to payments to all providers and practitioners under the Medicare program.

Mr. **Hoyer**. What is going to be the impact on hospital revenues?

Dr. **Desmarais**. They will receive 1 percent less than what they would have otherwise received. Under the current policy, this amount is expected to reduce obligations in fiscal year 1986 by $280 million. The reconciliation measure would provide additional money for each hospital discharge. The reduction therefore will depend ultimately on what the reimbursement policy is.

Mr. **Hoyer**. Do you have any judgment how much of an off-set that will be?

Dr. **Desmarais**. I don't. Maybe 1 percent of the total.

Mr. **Hoyer**. What I mean is, you indicate under reconciliation that there will be an additional payment. If you take it away with one hand and give it back with another, have you made any analysis as to what the differential will be?

Dr. **Desmarais**. We are analyzing this now, but it depends on what the policy eventually is. Since the reconciliation measure provides a ½-percent increase instead of a freeze, the impact of Gramm-Rudman-Hollings may be modified.

Mr. **Hoyer**. Thank you, Mr. Chairman.

Mr. **Natcher**. Dr. Desmarais, we want to thank you and your associates for appearing before our committee at this time in behalf of your budget request for the fiscal year 1987. It has been a good hearing, Doctor, and thank you very much.

[The following additional questions were submitted to be answered for the record:]

END STAGE RENAL DISEASE

C-1

Mr. Conte. When was the last time payment rates for the end-stage renal disease program were adjusted?

Dr. Desmarais. On August 1, 1983, the composite rate payment system became effective. Under this payment system, Medicare pays independent and hospital based renal facilities a set prospective payment rate for all outpatient dialysis treatments whether furnished in the facility or at home. Currently, the average independent payment rate is $126.59 and the average hospital payment rate is $130.59. The rates vary, since the base composite rate is adjusted by an area wage index.

Prior to August 1, 1983, Medicare paid hospitals on a reasonable cost basis and independents on a reasonable charge basis for outpatient dialysis treatments. Under this system, independents were paid a set fee of $138.00 per treatment. Hospitals were paid their reasonable costs, subject to a payment limitation of $138.00. A number of hospitals were receiving payment higher than $138.00, since a substantial number of them had been granted an exception to the payment limit of $138.00.

C-2

Mr. Conte. What percentage reduction will occur in these rates as a result of the proposals in the budget?

Dr. Desmarais. By correcting our methodology and using more recent data, renal facilities will average an 8 percent decrease in their payment rates although the precise effect on each facility is likely to vary due to other factors such as the use of a new wage index. This does not include the additional percentage decrease due to the Balanced Budget and Emergency Deficit Control Act of 1985.

C-3

Mr. Conte. Do you think that kind of reduction is really appropriate given the fact that these rates have essentially been frozen since 1983?

Dr. Desmarais. The renal industry has controlled the cost of dialysis treatments through aggressive management of the facilities' component costs. To offset the decrease in payment rates, the renal industry has implemented and increased its reuse of dialyzers, increased the percentage of home patients and where possible used lower paid staff rather than registered nurses to handle the routine care of patients.

The revised rates are based on audited 1982 and 1983 renal facilities' costs. The audits confirm that the cost of a dialysis treatment has not increased since the first composite rate audits (1978 and 1979 fiscal years). The proposed rates decrease because of a change in the weighting factor (treatments rather than number of facilities) used to compute the base composite rates. The revised methodology gives more weight to the costs of the more efficient independent ESRD facilities. In addition, the formula gives weights to renal facilities by the number of patients treated.

The proposed changes to the composite rate payments assume that renal facilities can control their costs through aggressive management of facilities' cost components. An exceptions process is available for renal facilities that qualify for a higher rate, for example, atypical patient mix or isolated essential facility status.

INCREASE IN PROSPECTIVE PAYMENT RATE

C-4

Mr. Conte. What percentage increase in the Prospective Payment rate is assumed in this budget request?

Dr. Desmarais. For planning purposes, the 1987 budget reflects a two percent update. This is simply a placeholder, and the final update factor published this summer will ultimately determine the level of FY 1987 hospital spending.

C-5

Mr. Conte. What is the actual percentage increase in effect for FY 1986?

Dr. Desmarais. The budget provides for no increase in FY 1986. Note: the Consolidated Budget Reconciliation Act of 1986 provides for an increase of one-half a percent for the period May 1, 1986 through September 30, 1986.

C-6

Mr. Conte. What would be the cumulative two year effect (FY 1986 and FY 1987) on these rates if we adopted the 2 percent increase you are assuming, and then Gramm-Rudman went into effect in FY 1987?

Dr. Desmarais. The two percent reflected in the budget is merely a placeholder. The PPS rates are updated annually by a factor determined by the Secretary of Health and Human Services. This factor is based on analyses of the most recent available information about hospital costs, changes in productivity and technology, and the recommendations of the Prospective Payment Assessment Commission. The analysis for this year will be completed and the proposed FY 1987 update will be published by June 2, 1986. Therefore, it is not possible to say what the cumulative 2-year effect will be at this time.

C-7

Mr. Conte. Has HCFA ever undertaken any long-term care demonstration projects emphasizing the specific problems of patients with dementia, including Alzheimer's disease?

Dr. Desmarais. HCFA is performing several studies concerning care reimbursed for patients who are beneficiaries under the Medicare program and enrollees in State Medicaid programs who receive care in long-term care institutions. It is important to note that the elderly with medical problems tend to have more than one problem at any one point in time. It may not be appropriate to single out one particular condition. Patients with dementia which stems from neurologic and psychiatric etiologies also tend to have accompanying physical illness problems such as heart disease, incontinence, arthritis, and other concomitant conditions. It is for this reason that we study the Medicare and Medicaid populations as groups rather than segmenting studies by patient diagnosis.

Our demonstration efforts have been aimed at improving quality and access to care by developing reimbursement systems which pay according to the amount of service needed by the patients. We currently are funding studies in New York and Texas which use the Resource Utilization Group (RUGs) nursing home case-mix system developed by Yale University. These studies are attempting to develop reimbursement systems in which a nursing home's reimbursement rate is based on its case-mix.

As a group, patients with a primary diagnosis of dementia tend to require more assistance with activities of daily living and tend to have higher frequency of severe behavioral problems than nondementia patients. Since case-mix reimbursement systems provide higher payment rates for higher levels of disability and occurrence of severe behavioral problems, these systems can provide strong incentives for facilities to accept these patients. In addition, for patients with Alzheimer's and related dementia disorders, the progress of the disease is such that more intensive intervention is anticipated over a fairly brief period of time. A facility's rates can be revised periodically to reflect the changes in case-mix. Thus, patients who have increased levels of disability will receive increased levels of payment consistent with their needs.

If successful, case-mix payment systems will provide radical improvements in the ability to identify patient needs, and to direct resources to patients based on those needs. Patients requiring additional care, whether because of dementia or physical impairment, will be able to receive support consistent with those relative needs. This case-mix approach represents a significant improvement in our ability to direct resources to those most in need.

DEMENTIA

C-8

Mr. Conte. Does HCFA have any data on the likelihood of spend-down, transfer of assets, or other financially important phenomena for patients with dementia?

Dr. Desmarais. HCFA does not collect data on the financial status of recipients based on their diagnosis. Consequently, we have no indications that dementia patients are more or less likely than the general population to spend down or transfer assets in order to qualify for Medicaid.

C-9

Mr. Conte. What is the status of the report on Medicaid recovery of assets from the States of Washington, Oregon, and Idaho?

Dr. Desmarais. HCFA's study on Medicaid recovery of assets in the States of Oregon and Idaho is currently in the early stages of development. We are aware that GAO is interested in performing a study in Washington which is in the early planning phase. There is also some indication that the IG in Seattle may want to do a similar study.

C-10

Mr. Conte. When will this study be released?

Dr. Desmarais. At this juncture, the study in the State of Oregon and Idaho is intended as an internal working paper to stimulate discussion of innovative approaches to the recovery of assets and ultimately form the basis for policy decisions. We do not anticipate its release in the immediate future. As stated above, the Washington study is the early planning phase.

OMB'S ROLE IN MEDICARE AND MEDICAID

R-1

Mr. Roybal. Please provide information on the chronology and nature of OMB's review and approval of HHS's regulatory actions related to Medicare and Medicaid. In particular, the Subcommittee would like to know (for each regulation): the date the agency submitted the action to OMB, when OMB acted, and what OMB did, highlighting any changes in the proposed regulation as a result of OMB's review. In addition, please provide, for the record, copies of internal and external correspondence concerning the regulation.

Dr. Desmarais. The requested information is provided in the following charts:

EOMB ACTION ON MEDICARE/MEDICAID REGULATIONS FY 1985

Regulation Number	Regulation Title	Date Regulation Submitted to EOMB	Date EOMB Acted Cleared Regulation)
BERC-506-F	Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT)	7-11-84	10-25-84
BERC-276-FN	Reissuance of the Wage Index in the 1981 Schedule of Limits on Hospital Costs	10-31-84	11-20-84
BERC-247-FC	Payment to Health Maintenance Organizations and Competitive Medical Plans	12-10-84	01-07-85
ORD-051-N	Health Care Financing Research and Demonstration Cooperative Agreements and Grants and Availability of Funds for Cooperative Agreements and Grants	11-16-84	01-24-85
BPO-033-FN	MMIS Requirements	01-10-85	01-29-85
BERC-273-P	Procedures for Determining Whether Providers, Practitioners or Other Suppliers of Services are Liable for Certain Noncovered Services	01-08-85	02-07-85

Regulation Number	Regulation Title	Date Regulation Submitted to EOMB	Date EOMB Acted (Cleared Regulation)
BERC-261-FNC	Annual Update to Reasonable Compensation Equivalent Limits for Services Furnished by Physicians to Providers	08-29-84	02-14-85
HSQ-96-P	Intermediate Sanction of Long-Term Care Facilities	10-25-84	02-04-85
BERC-182-F	Home and Community-Based Services	02-02-83	03-04-85
BERC-321-P	Income and Eligibility Verification Procedures for Food Stamps, Aid to Families With Dependent State Administered Adult Assistance, Medicaid and Unemployment Compensation Programs	12-06-84	01-21-85
BERC-514-P	Payments to Institutions	10-02-84	03-13-85
BERC-317-F	Prospective Payment System for Hospital Inpatient Services; Redesignation of Rules	02-22-85	03-14-85
BERC-507-F	FFP for Public Institutions	01-23-85	03-26-85
BERC-024-FNC	Coverage of Oxygen for Use in a Patient's Home	03-08-85	04-01-85

Regulation Number	Regulation Title	Date Regulation Submitted to EOMB	Date EOMB Acted (Cleared Regulation)
BPO-053-PN	Assignment and Reassignment of HHAs to Designated Regional Intermediaries	12-26-85	02-06-86
BERC-297-P	Treatment of Social Security Cost of Living Increases for Individuals Who Loses SSI Eligibility	03-25-85	04-08-85
HSQ-108-F	UQCPROs: Assumption of Responsibilities and Medicare Review Functions and Coordination of Medicaid with Peer Review Organization	01-28-85	04-09-85
HSQ-109-F	UQCPROs: Review and Sanctions	01-28-85	04-09-85
HSQ-110-F	UQCPROs: Confidentiality	01-28-85	02-15-85
HSQ-111-F	UQCPROs: Reconsideration and Appeals	01-28-85	02-15-85
BPO-020-F	Withholding the Federal Share of Payments to Recover Medicare or Medicaid Overpayments	11-16-84	04-22-85
BERC-240-P	Recognition of State Reimbursement Control Systems	08-23-84	05-07-85

Regulation Number	Regulation Title	Date Regulation Submitted to EOMB	Date EOMB Acted (Cleared Regulation)
BERC-278-PN	Schedule of Limits on HHA Costs Per Visit Reporting Periods Beginning On or After July 1, 1985	04-24-85	05-09-85
BERC-338-P	Limit on Payments for Direct Medical Education Costs	05-15-85	05-16-85
BQC-018-F	Claims Processing Assessment System (CPAS)	03-05-85	05-22-85
BERC-509-F	Imposition of Cost Sharing Charges Under Medicaid	11-16-84	05-22-85
BPO-041-P	Adjustment of Federal Share for Uncashed or Cancelled (Voided) Checks	05-07-85	05-16-85
BERC-315-P	Changes to the Inpatient Prospective Payment System and Fiscal Year 1986 Rates	05-28-85	06-06-85
BERC-340-P	Payment for the Costs of Malpractice Insurance for Hospitals and SNFs	05-28-85	06-12-85
BERC-231-NR	Exclusion of Cytotoxic Leukocyte Testing from Medicare Coverage	06-14-85	06-30-85

Regulation Number	Regulation Title	Date Regulation Submitted to EOMB	Date EOMB Acted (Cleared Regulation)
BERC-278-FN	Schedule of Limits on HHA Costs Per Visit Reporting Periods Beginning On or After July 1, 1985	06-21-85	06-28-85
BERC-338-F	Limit on Payments for Direct Medical Education Costs	06-24-85	06-28-85
OMB-006-F	OMB Control Numbers for Collections of Information Contained in HCFA Regulations	02-25-85	07-08-85
BERC-298-GN	Deficit Reduction Act of 1984. Information Notice on Medicare and Medicaid Amendments	04-30-85	07-12-85
BERC-317-F	Prospective Payment system for Hospital Inpatient Services; Redesignation of Rules	02-22-85	03-14-85
BPO-011-F	MMIS; Conditions of Approval and Reapproval and Procedures for Reduction of FFP	05-07-85	07-23-85
BERC-260-F	Correction and Conforming Changes	06-25-85	08-11-85
BERC-337-P	Limitation on the Reimbursement of Nonphysician Medical Services	09-24-85	09-26-85

Regulation Number	Regulation Title	Date Regulation Submitted to EOMB	Date EOMB Acted (Cleared Regulation)
BERC-315-F	Changes to the Inpatient Hospital Prospective Payment and Fiscal Year 1986 Rates	08-19-85	08-27-85
BPO-040-F	Forms Used for Applying for Entitlement or Enrollment or Claiming Payment	09-10-85	09-24-85
BPO-050-N	Collection of Overdue Medicare Part B Premiums	03-26-85	09-24-85
BPO-055-GNC	Criteria and Standards for Evaluating Intermediary and Carrier Performance Fiscal Year 1986	09-16-85	09-24-85
OACT-001-N	Medicare Economic Index for Physicians' Services (Effective 10-01-85)	08-13-85	09-03-85
OACT-002-N	Part A Premium for the Uninsured Aged for the 12-Month Period Beginning January 1, 1986	09-20-85	09-26-85
OACT-003-N	Monthly Actuarial Rates and Part B Premium Rates Beginning January 1, 1986	09-20-85	09-26-85
OACT-004-N	Inpatient Hospital Deductible and Coinsurance Amounts for 1986	09-20-85	09-26-85

MEDICARE AND MEDICAID WAIVERS

R-2

Mr. Roybal. Please provide information on each Medicare and Medicaid waiver that OMB has reviewed before approval by HHS. At a minimum, the Subcommittee would like to know the type of waiver, the entity requesting the waiver, the date the waiver request was submitted to OMB, and a chronology of OMB actions. The Subcommittee would also like copies of all internal and external correspondence relating to each waiver.

Dr. Desmarais. Under the Budget Acts and the Antideficiency Act, OMB is mandated to provide the Congress with estimates of what Federal programs will cost and assure that spending comports with approved financial plans. OMB review of waiver requests are based on these statutes and not Executive Orders No. 12291 or 12498 which pertain exclusively to regulatory review. HHS periodically notifies OMB of our completed action on Home and Community Based Waivers and their fiscal effect. On other waivers, HHS informs OMB of waiver requests and they advise us of the relationship of the proposed action to the Budget. Since reviewing the fiscal impact of waivers on the President's budget is part of OMB's ongoing, routine work, they do not keep records on each specific activity. Information compiled by HCFA on the waivers follows:

HOME HEALTH AGENCY PROSPECTIVE PAYMENT DEMONSTRATION

DESCRIPTION: This demonstration is designed to test three broadly different approaches to prospective payment of home health agencies (HHAs)--per visit, per month and per episode rates. Participating HHAs would be paid agency specific rates, i.e. each HHA's rates would be calculated based on that HHA's Medicare allowable costs in FY 1984.

WAIVER TYPE: Medicare reimbursement waivers - Section 402

ENTITY: Participating home health agencies.

CHRONOLOGY OF EOMB ACTIONS:

March 28, 1983	Executive Office of Management and Budget preclearance for the (proposed) demonstration design contract.
December 29, 1983	Contract awarded to Abt Associates, Inc. to design and implement the HHA prospective payment demonstration.
January 1985	Recruitment of HHAs to participate in the demonstration began.

May 9, 1985	HCFA received approval from EOMB of a preclearance for the (proposed) contract to evaluate the demonstration.
May 1985	HHAs begin signing agreements to participate, effective July 1985.
June 5, 1985	HCFA notified EOMB by telephone of our intent to implement the demonstration on July 1. EOMB requested a meeting to discuss the demonstration design in more detail.
June 14, 1985	At the meeting, EOMB notified HCFA they were unwilling to concur on approval of Medicare waivers until they had reviewed the demonstration design in more detail. EOMB furnished a list of questions to be answered. As a result, HCFA postponed the start of the demonstration until October 1, 1985.
July 5, 1985	HCFA responded in writing to EOMB's questions.
July 9, 1985	At a followup meeting, EOMB expressed concerns about use of agency-specific payment rates and the demonstration's case-mix intensity measure. Subsequently, HCFA further postponed the start of the project.
August 8, 1985	EOMB staff notified HCFA they were unwilling to recommend approval of Medicare waivers.
September 13, 1985	HCFA sent a memorandum to John Cogan, the EOMB Associate Director for Human Resources, Veterans and Labor, explaining the demonstration further and requesting approval. HCFA also met with Mr. Cogan on this date. At this meeting, Mr. Cogan expressed unwillingness to recommended to the Secretary waiver approval pending investigation into the ability of HHAs to alter their case mix under the demonstration. HCFA, in conjunction with Rand, analyzed this issue further and concluded that this ability of HHAs to "game" the demonstration was limited and could be taken into account in an evaluation. This issue was placed on hold pending confirmation of a new Administrator.

SOCIAL HEALTH MAINTENANCE ORGANIZATION DEMONSTRATION

DESCRIPTION: A demonstration project testing the social health maintenance (S/HMO) concept--integration of health and social services under the direct financial management of the provider of services--for long term care.

WAIVER-TYPE:

MEDICAID

Administrative:	Section 1902(a)(1) - 42 CFR 431.50(b) Section 1902(a)(10) and 1902 (a)(13)(B) and (C) - 42 CFR 440.240 Section 1902(a)(30) - 42 CFR part 447 Section 1903(m) - 42 CFR 431.569 Section 1902(a)(19) - 42 CFR 435.916(c)(1)(2) Section 1902(a)(23) - 42 CFR 431.51
Additional Services:	Section 1115 (a)(2)

MEDICARE

Reimbursement	Section 402(b)
Coverage:	Section 1862(a)(7) Section 1862(a)(12) Section 1862(a)(13(C)
Incidental Services:	Section 402(1)(1)(B)

ENTITY: Participating social health maintenance organizations

CHRONOLOGY OF EOMB ACTIONS:

March 1, 1980	The Health Policy Center at Brandeis University is awarded a grant to develop the S/HMO demonstration
November 5, 1983	EOMB denied HCFA's request for preclearance forms for S/HMO project
December 1983 - May 1984	Various meetings with EOMB
July 18, 1984	President signs the Deficit Reduction Act of 1984 (P.L. 98-369). Section 2355 of this legislation directs the Secretary to approve the S/HMO demonstration in accordance with the application and protocols already submitted to HCFA.

August 17, 1984	Waivers approved for demonstration sites
January 1, 1985 - March 1, 1985	Demonstration sites begin operations
September 17, 1985	Evaluation contract awarded to the University California at San Francisco
November 28, 1985	EOMB approves use of forms for the evaluation of the S/HMO demonstration

APPROVAL OF MEDICARE WAIVER FOR 85 PERCENT AAPCC DEMONSTRATION

DESCRIPTION: Demonstration projects demonstrating health maintenance organization (HMO) reimbursement at 85 percent of the adjusted average per capita cost (AAPCC).

WAIVER-TYPE: Medicare reimbursement - Section 402

ENTITY: Two HMOs (Tufts and Children's Hospital)

CHRONOLOGY OF EOMB ACTIONS:

May 5, 1984	Proposals received
November 15, 1984	HCFA request for approval to Assistant Secretary for Management and Budget (ASMB)
November 29, 1984	ASMB approval forwarded to EOMB
April 30, 1985	HCFA notified of EOMB approval
May 23, 1985	HCFA notifies entities of approval
June 25, 1985	Entities turn down waiver

PREFERRED PROVIDER ORGANIZATION DEMONSTRATION

DESCRIPTION: Blue Cross/Blue Shield of Michigan (Blue Care), under a demonstration contract with HCFA, accepts 95 percent of the adjusted average per capita cost for Medicare beneficiaries enrolled in the Detroit area. It then contracts with preferred provider organizations to serve beneficiaries at favorable rates.

WAIVER-TYPE: Medicare eligibility and reimbursement waivers and variances - Section 402

ENTITY: Participating preferred provider organizations.

CHRONOLOGY OF EOMB ACTIONS:

November 1984	HCFA Administrator petitioned ASMB for approval
January 1985	ASMB recommended disapproval of waivers
March 1985	ASMB reconsidered and agreed to forward waiver request for 6-month extension to OMB
March 1985	OMB notifies HCFA verbally of approval

END STAGE RENAL DISEASE COMPETITIVE BIDDING PROJECT

DESCRIPTION: This project tests the effectiveness of a competitive bidding approach as an alternative reimbursement method for end-stage renal disease (ESRD) outpatient dialysis services. For each year, each freestanding and hospital-based facility providing outpatient dialysis services in the selected sites would be requested to submit a bid for the price at which it would deliver services to Medicare patients. Medicare reimbursement to the facility would be based on the rate established by the approved bid, but not greater than the composite rate established for the facility.

WAIVER-TYPE:

	Medicare
Reimbursement	Section 1881(b)(7) of the Social Security Act Section 1832(a)(1) and (2)(B) of the Social Security Act Section 1881(b)(1) of the Social Security Act

Medicaid

Statewideness	Section 1902(a)(1), 42 CFR 431.50
Eligibility	42 CFR 435.711 and 435.721(b)

ENTITY: Participating ESRD facilities

CHRONOLOGY OF EOMB ACTIONS:

May 1983	Memorandum to EOMB providing background information on the project
September 14, 1983	Letter from State of Colorado requesting the waivers of statewideness and eligiblity standards by the State of Colorado for the AFDC and Medicaid program.
November 23, 1983	HCFA requested waivers of the AFDC income requirements to allow the incentive payments not to be included as countable income for purposes of determining AFDC eligibility. In addition, HCFA asked whether or not waivers would be required to the SSI income requirements.
January 11, 1984	Memo to EOMB advising them of status of project transmitting draft protocol.
January 17, 1984	HCFA was informed that SSI waivers would not be Title IV-A (AFDC) waivers would be approved.
February 2, 1984	Letter from State of California requesting waivers eligibility standards and statewideness on behalf of their California Medicaid and AFDC programs.
April 27, 1984	EOMB recommendations on project design and lack of need for waivers for AFDC, SSI, etc.
May 11, 1984	Discussion of SSI income eligibility determination (Memorandum to file)
June 22, 1984	Note to Associate Administrator for Policy at HCFA, from Acting Director of the Office of Research and Demonstrations at HCFA stating need for OGC review of SSI income determination for project

August 13, 1984	Memorandum from SSA modifying their position on on the SSI issue
September 7, 1984	OGC memorandum - legality of providers making incentive payments
September 11, 1984	Response to comments on project from Government components
September 11, 1984	Informational memorandum to Secretary on the project
September 13, 1984	Informational memorandum to Associate Administrator for Policy, HCFA, on beneficiary incentive payments
January 15, 1985	Letters to States of Colorado and California - HCFA requesting reconfirmation of their request for Medicaid waivers for this demonstration
March 21, 1985	Decision memorandum to Acting Director, Office of Research and Demonstrations, HCFA - approval of Medicare and Medicaid waivers for this project

PREVENTION DEMONSTRATION

DESCRIPTION: Demonstration to examine the economy of reimbursing for an expanded preventive Medicare package of benefits that would: increase the independence and reduce the number of days of confinement of older people due to acute and chronic conditions; enhance the involvement of community and voluntary organizations in fostering prevention and health promotion programs for older people; increase the efforts of health providers and professional groups in offering prevention and health promotion programs for older people; and enhance effort which work to reduce the social isolation of older people.

WAIVER-TYPE: To be determined when grantees submit final protocols for the demonstration.

ENTITY: Participating providers offering preventive services.

CHRONOLOGY OF EOMB ACTIONS:

January 25, 1985	HCFA Administrator recommended approval of three prevention proposals and notified the Assistant Secretary of Management and Budget (ASMB) of the decision.
March 13, 1985	HCFA received a memorandum from ASMB urging HCFA to reconsider its decision to approve the projects.
April 24, 1985	ASMB forwarded the three prevention proposals to EOMB for review.
September 23, 1985	EOMB approved two prevention proposals.

ROBERT WOOD JOHNSON FOUNDATION/HCFA MANAGED HEALTH CARE DEMONSTRATIONS

DESCRIPTION: The Robert Wood Johnson Foundation (RWJF) Program for Prepaid Managed Health Care is cosponsored by HCFA and the National Governors' Association (NGA). The program is designed to enable medical institutions, working with State and Federal Government and private health insurers, to develop more efficient arrangements for the financing and delivery of health services. It seeks to demonstrate that those who pay for health care can substantially reduce their health expenditures while improving quality and maintaining acccess to medical care, particularly for the poor. Most projects will be limited to Medicaid and will utilize prospective payment and case management (i.e., the gatekeeper concept to health care).

WAIVER-TYPE:

	Medicaid
Statewideness	Section 1902(a)(1), 42 CFR 431.50
Eligiblity	Section 1902(a)(10, 42 CFR 440.250(b)
Additional Services	Section 1115(a)(2)

ENTITY: Participating medical providers.

CHRONOLOGY OF EOMB ACTIONS:

January 30, 1985	HCFA Administrator sent memorandum to Assistant Secretary for Management and Budget (ASMB) advising that HCFA plans to approve the Medicaid waivers for Maryland and New York.
February 14, 1985	In a memorandum from ASMB to the HCFA Administrator, HCFA was advised that since the waivers involve gross costs over $1 million, the waiver requests would require the review of both the Office of the Secretary and the Office of Management and Budget prior to approval. ASMB indicated they would review waivers concurrently with the EOMB.
March 7, 1985	Memorandum from ASMB advising HCFA Administrator that Medicaid demonstration waivers were forwarded to EOMB.
April 1, 1985	EOMB requested the following material from the Office of Demonstrations and Evaluations (ODE) in HCFA: an overall program summary; a short summary of each of the 13 projects; and the site visit reports from the Maryland and New York sites.
April 16, 1985	The 13 original applications approved for funding by RWJF were sent by ODE to ASMB. The applications were forwarded to EOMB.
May 17, 1985	EOMB staff called ODE and requested the following information: when the capitation rate was determined, did Maryland and New York use total eligibles or only those using services; confirm the percent of eligibles that will become ineligible sometime during the guaranteed eligibility period; and confirm the percent of eligibles that will enroll in the program.

May 20, 1985	The information requested on May 17 was telephoned to EOMB staff.
May 22, 1985	EOMB staff called and requested the following information: the history of the plans prior to RWJF, including start date and capitation rates and enrollment figures; the abortion reimbursement issue; did New York offset the stop loss provisions in the capitation rate calculations; is the State doing anything different for these projects with regard to access and quality of care.
May 31, 1985	The HCFA Administrator and the Acting Director, Office of Research and Demonstration (ORD), met with EOMB to discuss the waiver request for the prepaid managed health care demonstration. Staff from NGA and RWJF also participated in the meeting.
June 14, 1985	The HCFA Administrator sent EOMB a copy of a research design for the demonstration.
June 21, 1985	ASMB informed the Acting Director, ORD, that EOMB recommended approval of three Medicaid waiver applications for the RWJF project and requested a copy of waiver approval letters.
July 12, 1985	Copies of Maryland and New York Medicaid award were sent to ASMB by ORD.

Documents not attached because quite voluminous. Please advise of any specific documents desired.

MEDICARE AND MEDICAID FORMS

R-3

Mr. Roybal. Please provide information on OMB's review of HHS's Medicare and Medicaid related forms and surveys under the Paperwork Reduction Act. The Subcommittee would like a complete description of OMB's involvement in the process, including approval timeframes and extent of changes in the data collection efforts. In addition, we would like you to submit copies of any internal and external correspondence which relates to review and approval of each data collection activity.

Dr. Desmarais. Due to the volume of the requested information it will be sent under separate cover.

MEDICARE STUDIES

R-4

Mr. Roybal. What progress has been made in initiating new studies, and in providing adequate resources for data collection and other research activities for studies begun before FY 1986, on the impact of the prospective payment system on quality-of-care and access-to-care, pursuant to House Report language under the 1986 appropriations?

Dr. Desmarais. The following studies on the impact of the prospective payment system on quality and access to care, begun before FY 1986, are currently being fully funded.

a. Beneficiary Impact Study

The purpose of this internal HCFA study is to detect possible PPS effects on the quality of care by analyzing the outcomes of hospital care on the health status of the Medicare population, e.g., by analyzing mortality rates.

b. Hospital Practice Study

This study will measure the quality related effects of PPS by examining hospital usage and treatment patterns and their effects on inpatient and discharge status. This study is being implemented through a cooperative agreement with the Commission on Hospital and Professional Activities (CPHA).

c. Non-Intrusive Outcome Study

This cooperative agreement with the Rand Corporation is a long-term investigation into the feasibility of using Medicare administrative data to detect and monitor quality of care levels within individual hospitals for specific medical conditions.

d. ESRD Study

This study focuses on the issue of whether the Medicare ESRD hospitalized patients, as a high cost treatment population, are being adversely affected by PPS, and is being conducted through a cooperative agreement with the Urban Institute.

e. Clinical Analysis of PPS Impacts on the Quality of Inpatient Medical Care

This study is an in-depth clinical analysis of PPS effects on the quality of inpatient care involving a cooperative agreement with the Rand Corporation and selected PROs across the Nation. The study will evaluate PPS impacts on quality by assessing potential treatment pattern effects and resultant health status outcomes through a thorough examination of the medical record.

f. Indexes of Hospital Efficiency and Quality

This cooperative agreement with CPHA is designed to produce a method for evaluating the relationship between quality and efficiency levels within hospitals, useful in measuring the combined effects of PPS.

g. Methods for Determining Health Status at Discharge

This project is intended to develop and standardize a method for determining Medicare patients health status at the time of hospital discharge by assessing physical and mental functions and post-discharge treatment needs. This study is being conducted through a cooperative agreement with Northwest Oregon Health Systems.

The total budgeted amount for these studies is approximately $5 million.

Additionally, HCFA, along with the Assistant Secretary for Planning and Evaluation, is currently planning a study to develop methods for assessing the adequacy of hospital aftercare services. This pilot project has the following objectives: First, this project will develop a reliable methodology for assessing: (a) patients' functional ability and dependence at discharge, and (b) patients' projected needs for post-discharge (aftercare) services, including continuing needs for acute care services . Secondly, the project will link data describing aftercare service needs and utilization as a means of assessing access and adequacy of these services. These data will be related to Medicare utilization and enrollment files to determine long-term utilization and health status outcomes of aftercare services.

R-5

Mr. Roybal. If the rescission on R & D funding is not approved, is there any reason to believe that the problem of funding being held back by OMB will be repeated this year.

Dr. Desmarais. General fund monies proposed for rescission have already been released by OMB. Trust fund monies that have been deferred will be released in accordance with the requirements of the Budget Control and Improvement Act and in accordance with HCFA's ability to effectively utilize the funds this fiscal year.

MEDICARE BENEFITS FOR LONG-TERM CARE

R-6

Mr. Roybal. What is the impact--in terms of cost and quality of service--of cost containment on Medicare benefits and services for acute and continuing (long-term) care?

Dr. Desmarais. A number of studies are currently underway within the Department concerning issues related to cost-containment (PPS) impacts on utilization and quality of care. Currently HCFA is investing over $5 million in extramural PPS quality of care research, not including its intramural program, and special studies to be performed by the PROs. Although preliminary results from some of these studies indicate that under PPS average length of stay for Medicare patients has fallen greater than the historical trend, there is no data available to indicate concurrent, systematic changes in the quality of hospital care.

HCFA is undertaking a joint effort with the Office of the Assistant Secretary for Planning and Evaluation (ASPE) which will address issues pertaining to premature discharge, post-acute services, and cost-shifting. The basic approach of this study will involve developing a reliable method of (a) assessing Medicare patients' health status and needs for post-discharge services at the time of discharge, and (b) surveying the adequacy of post-discharge care in relation to patients' health care needs. As part of the post-discharge survey, patient and family burden (including financial burden) will also be assessed.

R-7

Mr. Roybal. Please provide the results of the HCFA study on state rate setting and the ASPE evaluability assessments of the effect of the prospective payment system on the elderly and the quality of their care as soon as they are available.

Dr. Desmarais. Final reports from the National Hospital Rate-Setting Study will become available in the summer of 1986. This is the evaluation of the impact of 15 hospital prospective reimbursement programs from 1970 to 1979. The study focuses on the following eight areas:

- Hospital revenue, expenditures, and financial viability;
- Volume of hospital services;
- Hospital payroll costs and staffing;
- Patient care;
- Hospital capital formation, competition, and industrial structure;
- Hospital organization and administrative behavior;
- Access to hospital services;
- Medicare hospital and nonhospital costs.

The contract was modified in August 1985 to provide more up-to-date information on program impacts in the areas of volume of services and payroll and staffing (up to 1981), and patient care and revenue and expenditures (up to 1983).

Final reports completed early in 1984 on three areas are as follows:

- "The Impact of State Hospital Prospective Reimbursement Programs on Medicare Hospital and Nonhospital Costs"

- "The Impact of State Hospital Prospective Reimbursement Programs on Hospital Capital Formation, Competition, and Industrial Structure: An Evaluation"

- "The Impact of Prospective Reimbursement on Hospital Payroll Costs and Staffing"

Due to the volume of the above they will be provided upon request. In addition, due to the volume of the evaluability assessment studies, they will also be provided under separate cover.

VOLUME OF BILLS

R-8

Mr. Roybal. What is the result of the internal study done by HCFA on the changes in the volume of bills submitted by physicians, home health agencies, and nursing homes?

Dr. Desmarais. HCFA has recently completed a study of actual claims volume received compared to volume changes between FY 1982 and FY 1986.

- In FY 1985, we received .5 million more intermediary bills and 17.2 million more carrier bills than were budgeted for.

- In FY 1986, we estimate that we will receive 7 million intermediary bills and 12 million more carrier bills than were budgeted for.

- We are experiencing a decrease in inpatient hospital bills and an increase in diagnostic laboratory bills; physicians bills and durable medical equipment bills.

- These changes represent the combined impact of a number of recent legislative and health policy changes.
    - PPS-decreased inpatient bills, increased outpatient, DME bills.
    - Deficit Reduction Act required separate billing for diagnostic laboratory services.
    - Participating Physicians Program - increases assignment rate which decreased services per claim.
    - Electronic Media Claims (EMC) - decreased services per claim.
    - Medical Technology Changes - more services performed in outpatient setting which were formerly performed in an inpatient setting.

R-9

Mr. Roybal. Given the intensification of services to deal with earlier discharges to nursing homes and home health, do you have any studies underway or planned related to manpower standards?

Dr. Desmarais. Since PPS was implemented, there has been some increase reported in the percent of hospital cases discharged to nursing homes. A recent report from the Commission on Professional and Hospital Activities found the 1984 percentage of Medicare patients discharged to skilled nursing facilities from their client hospitals to be about one percentage point higher than historic trends would have predicted, and the percentage discharged to ICFs to be two-tenths of a percent higher. Neither increase was judged by CPHA to be statistically significant. We do not yet have CPHA's findings for 1985. Our National Data suggests that the fiscal year 1985 percentage of PPS to SNFs rose to 5.9 percent versus 5.3 percent in fiscal year 1984, while the percent discharged to ICFs was 2.6 percent in both years.

HCFA currently has no plans to undertake studies assessing manpower standards.

QUALITY OF CARE

R-10

Mr. Roybal. What is HCFA doing to insure quality of care in all care settings, given the policy emphasis on cost containment? Given the new scope of PRO tasks, is funding adequate? Are there any plans to expand PROs into nonhospital areas? What proportion of PRO effort is expended in quality of care review compared to cost review?

Dr. Desmarais. The second round of PRO funding particularly tailors and targets its efforts toward quality of care. Although the percent of total inpatient admissions reviewed will drop from 44 percent to 26 percent (on a national average), the focus will be shifted more towards quality through the use of generic quality screens and discharge review. In addition, the Federal and State survey and certification process monitors all care settings to assure that they meet conditions of participation in the Medicare program.

The Reconciliation Act of 1986 expands somewhat PRO review responsibilities by requiring that PROs or carriers determine (prior to the procedure) whether assistants at surgery are medically necessary and to conduct a second surgical opinion program. In addition, COBRA specifically authorizes PROs to perform review of both hospital and ambulatory services furnished by HMOs.

The Administration believes that there is sufficient funding to carry out all the requirements of the PRO operation during the next 2-year cycle. There are no plans at present to expand into review areas other than the inpatient setting.

All cases reviewed by PROs under the new Scope of Work will be reviewed against generic quality screens and PRO discharge criteria, as well as utilization criteria. Since the PRO will be reviewing both for quality and utilization at the same time, it is difficult to state precisely what the proportion of effort is for each activity.

MEDICAID RECIPIENTS

R-11

Mr. Roybal. Do you have any estimate of the number of Medicaid recipients who would be eliminated from eligibility or the services which would no longer be provided because of the $1 billion reduction in medical payments (net of the $1.3 billion reduction in the current services amount and the $300 million in the hardship pool)? What are the State Medicaid Directors telling you about the likely effects of this proposal in their respective States? What will happen to the people who depend on Medicaid for their health care if the States cannot absorb these cuts?

Dr. Desmarais. There is nothing in the design of the Medicaid cap proposal that will reduce the number of eligible recipients or the services provided to them. Over the past few years, States have made many different policy choices as to the number of eligibles covered, the range of services provided, and the generosity of its provider reimbursement system in response to statutory changes to Medicaid. Given these large differences between the States' programs, there is no clear consensus on what decisions States will make in administering their programs under the Medicaid cap and their effects on beneficiaries and services.

While some State Medicaid Directors might not support the Medicaid cap, the Administration's position is that without some Federal financial limit, States will not have sufficient incentives to adopt cost effective program innovations. During the last few years, the States have been under financial pressures both from limits on Federal funds and general economic conditions. This pressure has produced significant program innovations in many States and the rate of increase in Medicaid outlays has been dramatically reduced.

However, we must realize that economic conditions for the States have improved from the low points of 1982 and 1983, and the Federal Medicaid reductions have been removed. There is no longer the same financial pressures which spurred the States' actions. Therefore, this limit to Federal expenditures has been proposed to continue the incentives for the States to adopt new cost efficient program changes.

States that succeed in keeping Medicaid expenditures under control would not have costs in excess of what the Federal government would match. If the States react in the same way as they did when faced with the 3-year Federal reductions, Medicaid costs will be controlled through increased efficiency, not by adverse program changes affecting any beneficiary group or services in particular. In addition, we will be proposing a number of changes to give States more flexibility to target Medicaid funds more cost effectively.

MEDICAID CAP

R-12

Mr. Roybal. The current proposal on the Medicaid cap allows growth only for inflation (medical CPI). Without some measure built in to this cap for the increased demand precipitated by the increases in the number of the elderly, how can we expect any effect other than a reduction in covered services or in the proportion of needy people who are Medicaid eligible as a result of establishing this one dimensional approach to responding to changing need?

Dr. Desmarais. There are numerous possible methods of adjusting the cap on States' matching ceilings to account for changes among States in demographic or economic characteristics. Of these, the MCPI was selected as a reasonable measure of unavoidable cost increases experienced by States, based on readily available national data, and as being reasonably equitable among States.

The reason that other factors such as changes to the elderly population and the poverty population were not included is that there is too much variation between States in the current programs. Under current law, the States have already made many different policy choices as to the number of eligibles covered, the range of services provided, and the generosity of its provider reimbursement system. Given the large differences among the States' programs, there is no clear consensus on which additional factor or factors would be helpful.

Again, there is nothing in the design of the Medicaid cap proposal that will reduce services or the number of eligible recipients. We will be proposing a number of changes to give States more flexibility in administering their programs to meet the changing needs of their Medicaid population.

PER-RECIPIENT ADMINISTRATIVE COSTS

R-13
ASPE

Mr. Roybal. In 1985 which States had per-recipient administrative costs in excess of 175 percent of median and so might be affected by the proposal to reduce from 50 percent to 25 percent the reimbursement rate for those costs which are above that limit? For the record, please provide the amount of such reduction if the proposal had been in effect in 1985.

Dr. Desmarais. The data on State administrative expenditures for 1985 are not yet available from the States. However, if the proposal to reduce the reimbursement rate for Federal payments for State per-recipient administrative payments from 50 to 25 percent for amounts in excess of 175 percent of the median for all States had been in effect in 1985, the following States would have had their payments reduced by the amounts indicated:

STATE	AMOUNT OF REDUCTION
North Dakota	$ 234,480
Nevada	130,019
New Hampshire	80,803
New York	14,162,057
Oklahoma	48,183
Oregon	1,905,425
Utah	1,220,807
Vermont	54,098
TOTAL	$ 17,835,872

R-14

Mr. Roybal. Aren't the States who have been the most conscientious about cost containment going to be penalized most by the cap on medical payments, since they have the least amount of flexibility to make efficiency changes and would have to cut deepest into the program to absorb the reduction in Federal reimbursement?

Dr. Desmarais. The Medicaid cap will be allocated to the States based on their proportion of FY 85 expenditure levels. There will be a one-year $300 million hardship pool to assist in the transition in FY 87.

For FY 87, States which have been inefficient will appear to have been unfairly rewarded. However, States which have operated an efficient Medicaid program will have to make few, if any, changes to their programs to meet future spending targets. On the other hand, States which have had little reasons until the FY 87 Federal spending cap to moderate yearly Medicaid outlay increases will have to make significant operational changes or face expending more State funds to continue inefficient practices.

The legislation will provide all States with increased flexibility. This flexibility will allow each State greater latitude in managing its Medicaid program to target resources most effectively. All States, whether historically efficient or inefficent, will be able to take advantage of this opportunity.

R-15

Mr. Roybal. What effect on quality of care effort will the elimination of enhanced rates of payment for PRO contracts and utilization of medical personnel for certification?

Dr. Desmarais. With regard to elimination of enhanced matching rates for State certification medical personnel, this proposal will not have an adverse effect on States' ability to ensure quality of care through the survey process. We expect that States will continue their current level of effort in the area of survey and certification.

Medicaid administrative costs have grown rapidly in the past several years, and enhanced matching funds for these activities are no longer needed. This proposal would greatly simplify the administrative grant program and encourage States to allocate costs efficiently.

MEDICARE PART B IMPACT

R-16

Mr. Roybal. The Administration is proposing to increase the Medicare Part B buy-in for Medicaid recipients from 25 percent to 50 percent while increasing the premium to individuals from 25 percent to 35 percent. What impact would this have on the beneficiaries? Isn't there a danger that the States will no longer be able to buy in for their Medicaid recipients?

Dr. Desmarais. The proposal to increase the Medicare Part B premium charged to third parties, such as States, to 50 percent is not expected to have any impact on the Medicaid beneficiaries. These beneficiaries are currently not paying their own premiums. The States make the payment.

The impact of the premium increase on those Medicare beneficiaries who are not also eligible for Medicaid or other third party payment of their premium would be phased in over 5 years and still only partially reverses the trend that reduced the percentage of program costs covered by the premium from 50 percent to below 25 percent. In addition, there would be a hold harmless provision that will assure that no beneficiary will have his or her current net Social Security check reduced due to this change.

States would still have a strong incentive to buy in to the Medicare program. The Medicare Part B premium currently covers only 25 percent of the aged beneficiary's program costs. Combining this with the fact that the Federal Medicaid program will match the State payments for premiums for Medicaid beneficiaries (who are eligible for cash payments) makes the current cost to the States approximately 14 percent of the value of the Medicare Part B services. Increasing the premium to 50 percent will still only increase the costs to the States of these benefits to 28 percent.

MEDICAID AND THE POOR

R-17

Mr. Roybal. What is HCFA doing about the half of the poor who are not covered by Medicaid? How will that problem be addressed in studies of long term care?

Dr. Desmarais. In the course of our major study of catastrophic health expenses and how to deal with them, the Department will be studying health care needs of the poor not on Medicaid, as well as those of other groups. Three coordinated study groups will address this problem: one will address needs for coverage of catastrophic acute care expenses among those over 65, a second will consider catastrophic long-term care, and a third will examine catastrophic coverage among the population 65 and under. The Secretary expects to send recommendations based on the reports of these studies to the President in December of this year.

MEDICAID GRACE PERIOD

R-18

Mr. Roybal. How does the Department justify eliminating the grace period ("bona fide effort to sell") for Medicaid beneficiaries at the time that their homes become no longer exempt as personal resources--particularly for 209B States who would fall out of compliance with their mandate to not have regulations that are more restrictive than 1972 Medicaid policy?

Dr. Desmarais. Let me first clarify that this was not a discretionary action taken by HCFA.

Medicaid financial eligibility determinations are tied to the financial eligibility policies of the SSI or AFDC programs. In this instance, the Social Security Administration clarified that an exclusion of a resource as having no value because of an unsuccessful bona fide effort to sell was no longer permissible.

HCFA notified our regional offices and States of this clarification and supplied subsequent supplemental material indicating that elimination of the bona fide effort to sell presumption of zero value for a resource did not equate to a loss of Medicaid.

Additionally, SSI recently released instructions which clarified that the home is excluded, regardless of its value, if the individual lives in the home, or in the case of an institutionalized individual, if the individual expresses the intent to return there or if a spouse or dependent relative lives in the home. Thus, while it is true that a presumption of no value based on a bona fide effort to sell no longer exists, there should be relatively few instances where an individual's home becomes a countable resource at all.

We recognize that in certain limited circumstances where the home becomes a countable resource or in those States which elect to employ a more restrictive home exclusion rule, that elimination of the zero value presumption may cause hardship. Accordingly, HCFA is exploring other avenues to permit flexibility within the existing framework of financial eligibility policies.

MEDICAID'S FINANCIAL ELIGIBILITY GUIDELINES

R-19

Mr. Roybal. What action is the Department taking to identify and close "loopholes" in Medicaid's financial eligibility guidelines that permit individuals with incomes above the allowable level to shelter assets (such as through certain trust funds or family transfers)--thereby accelerating the "spenddown" process. Which loopholes are of greatest concern and what is their estimated cost to Medicaid?

Dr. Desmarais. We are concerned about the loopholes of which you speak, and are taking action to identify and close them, based on existing law, or seeking changes in the law.

States now have the option to deny Medicaid eligibility to persons who dispose of resources for less than fair market value, within two years prior to becoming Medicaid eligible. To date twenty-five (25) States have elected to exercise this option. Also, the recently-enacted COBRA legislation contains a provision dealing with the treatment of certain kinds of trusts. These kinds of asset shifts, particularly by middle class individuals seeking Medicaid coverage for nursing home care, have the potential, if permitted, for adding significantly to the cost of Medicaid. Of particular concern are the trust loopholes.

The current law, as amended by COBRA, does not close all trust loopholes. Presently, the Social Security Administration and the Health Care Financing Administration are jointly looking at a way to close still further loopholes in the current law by which people are able to shelter assets in trusts, permitting them to qualify for public assistance. The central point of the proposal is whether the corpus of the trust should be counted as available at least in some circumstances. The Department believes that consideration of such a step is necessary to close this loophole effectively. The Department recognizes that some may view such a measure as a radical change in trust law, and that some form of grandfathering may be necessary. Fortunately, there does not appear to be very many trusts already in existence that would be affected by a statutory change. We realize that what is being considered is mostly geared toward offsetting future problems.

In addition, we are reviewing the advisability of making mandatory eligibility restrictions where assets are disposed of at less than fair market value.

R-20

Mr. Roybal. What state models exist and what studies is the Department funding (such as allowable transfers of resources) to limit the impact of Medicaid "spend down" for couples and families faced with costly nursing home and home health care?

Dr. Desmarais. To our knowledge, there are no comprehensive studies that are being conducted in HCFA on transfer of assets (resources) provisions relating to Medicaid. While studies of this kind would be useful for analysis of alternative eligibility policies, research data are generally unavailable for transfer of assets. This is because transfer of asset information is routinely maintained in individual eligibility case records and is not generally available from automated eligibility systems.

SPECIAL POPULATIONS

R-21

Mr. Roybal. Are you looking at any differential effects in special populations (ethnic and racial minorities, women, rural) on trends in health status and health care access, quality and cost which may be precipitated or enlarged by recent policy changes? If so, in what ways is this analysis being accomplished? If not, why not?

Dr Desmarais. Data from the 1980 National Medical Care Utilization and Expenditure Survey (NMCUES) are being used to look at differences in health status, access to care and health expenditures for several population groups. Of particular interest are the Medicare and Medicaid populations. In addition, several other comparisons are made among populations of special interest, for example between men and women and among whites, blacks and Hispanics. These data will be published in a databook entitled "Perspectives on Health Care from the National Medical Care Utilization and Expenditure Survey: United States, 1980."

NMCUES data are compared whenever possible to previous data on use and expenditures to assess trends in access to care and health status. The planned 1987 National Medical Expenditure Survey (NMES) will provide the opportunity to study changes since 1980. Analyses of the NMES data will attempt to relate observed changes in access, health status, use and expenditures to policy changes that have occurred in the period between 1980 and 1987.

SPECIAL POPULATIONS

R-22

Mr. Roybal. Is HCFA monitoring for patterns of dumping and skimming and the resultant impact on special populations?

Dr. Desmarais. Each of the studies related to assessing quality and access under PPS include analysis components dealing with the following patient and clinical characteristics: age, race, sex, and diagnosis. Using these variables, PPS effects on utilization, patient care treatment patterns, and health status outcomes can be assessed. In particular, PPS effects can be assessed on Medicare special populations expected to represent a high risk under PPS, e.g., the ESRD, and the "old-old" populations. These studies include:

a. Beneficiary Impact Study - The purpose of this internal HCFA study is to detect possible PPS effects on the quality of care by analyzing the outcomes of hospital care on the health status of the Medicare population, e.g., by analyzing mortality rates.

b. Hospital Practice Study - This study will measure the quality related effects of PPS by examining hospital usage and treatment patterns and their effects on inpatient and discharge status. This study is being implemented through a cooperative agreement with the Commission on Hospital and Professional Activities (CPHA).

c. Non-Intrusive Outcome Study - This cooperative agreement with the Rand Corporation is a long-term investigation into the feasibility of using Medicare administrative data to detect and monitor quality of care levels within individual hospitals for specific medical conditions.

d. ESRD Study - This study focuses on the issue of whether the Medicare ESRD hospitalized patients, as a high cost treatment population, is being adversely affected by PPS, and is being conducted through a cooperative agreement with the Urban Institute.

e. Clinical Analysis of PPS Impacts on the Quality of Inpatient Medical Care - This study is an in-depth clinical analysis of PPS effects on the quality of inpatient care involving a cooperative agreement with the Rand Corporation and selected PROs across the

Nation. The study will evaluate PPS impacts on quality by assessing potential treatment pattern effects and resultant health status outcomes through a thorough examination of the medical record.

f. Indexes of Hospital Efficiency and Quality - This cooperative agreement with CPHA is designed to produce a method for evaluating the relationship between quality and efficiency levels within hospitals, useful in measuring the combined effects of PPS.

g. Methods for Determining Health Status at Discharge - This project is intended to develop and standardize a method for determining Medicare patients health status at the time of hospital discharge by assessing physical and mental functions and post-discharge treatment needs. This study is being conducted through a cooperative agreement with Northwest Oregon Health Systems.

h. Methods for Determining the Adequacy of Hospital Aftercare - This pilot project has the following objectives: First, the project will develop a reliable methodology for assessing: (a) patients' functional ability and dependence at discharge, and (b) patients' projected needs for post-discharge (aftercare) services, including continuing needs for acute care services. Secondly, the project will link data describing aftercare service needs and utilization as a means of assessing access and adequacy of these services. These data will be related to Medicare utilization and enrollment files to determine long-term utilization and health status outcomes of aftercare services.

NATIONAL MEDICAL EXPENDITURES SURVEY

R-23

Mr. Roybal. What level of funding support will HCFA provide toward the National Medical Expenditures Survey (NMES) in '87 and '88? What is your understanding of the amount of funds needed to conduct the portions of the survey that cover expenditures for nursing home care and for the mentally retarded and the implications if these funds are not available?

Dr. Desmarais. The total estimated cost of NMES is $47,900,724. Of this amount, $11,601,775 is for the Institutional Population Survey (IPS). The portion of IPS related to the survey of nursing homes and psychiatric hospitals will cost an estimated $6,567,805. The portion related to facilities for the mentally retarded will cost an estimated $5,033,970.

Due to the fact that HCFA's 1987 and 1988 budgets have not been finalized, we are uncertain at this time what funding levels we will provide toward NMES during these years.

R-24

Mr. Roybal. In what ways will data on national expenditures for nursing home care and for the mentally retarded - which are proposed to be collected for the first time as a part of the National Medical Expenditures Survey (NMES) - support future policy development by HCFA?

Dr. Desmarais. Data on the costs of care for persons in each type of institution by health, functional, and mental conditions and sociodemographic traits will contribute to an understanding of the components of cost. In particular, the costs for episodes of care could be used in developing alternative methods of prospective payment long-term care.

Analysis of sources of funds for the care of patients in long-term care facilities (including patients' own resources) could be used in developing models for apportioning responsibility for the costs of long-term care; including self, family and long-term care insurance.

Detailed data on the services furnished to residents of Intermediate Care Facilities for the Mentally Retarded by size and other characteristics of these facilities will provide information on the factors contributing to the high costs of caring for this group of Medicaid program beneficiaries. This could point to areas where "out-of-line" costs are likely to occur and suggest policies directed at controlling them; thereby either reducing them or arresting their rates of increase.

Understanding the full range of services used by Medicare beneficiaries in nursing homes and their attendant costs could permit refinement of HCFA's current methods of accounting for beneficiaries in these facilities when computing the adjusted average per capita costs (AAPCC) used in setting capitation rates for HMOs.

HMOs

R-25

Mr. Roybal. What progress has been made to date, relative to PROs, to make quality care reviews of HMOs?

Dr. Desmarais. At the present time, the PROs are reviewing the necessity, appropriateness and quality of inpatient admissions for HMO/CMP enrollees. Concurrently, elements of the HMO/CMP community are developing a program for comprehensive quality review of prepaid services both in the ambulatory and inpatient settings. Our long-range preference is for a quality review system that is developed and operated by the HMOs/CMPs themselves. This approach is consistent with the recently enacted reconciliation legislation.

HMOs

R-26

Mr. Roybal. Given the questions that have been raised in South Florida on HMO operation, what is being done to assure that the HMOs are providing services as appropriate, covering a range of services, sustaining quality of care, handling enrollment and disenrollment appropriately and are not engaging in misleading marketing practices?

Dr. Desmarais. The HCFA regional offices monitor all Medicare HMOs on a scheduled basis. A desk review is required yearly, utilizing in-house data and reports. After the first 6 months of an initial contract, an on-site monitoring review will be made utilizing a standardized monitoring protocol. After the review is complete, a letter is sent to the plan indicating the corrective actions to be taken. On-site reviews will be completed every other year after the initial inspection. (During the intervening years, the desk review will be conducted.)

The protocol is comprehensive and includes a method of evaluation for each element in the following areas:

-- Marketing
-- Membership/Enrollment
-- Service Delivery
-- Claims Processing
-- Grievances and Appeals
-- Contract Administration and Management
-- Quality Assurance

In addition, the Office of Health Maintenance Organizations (OHMO) also has an ongoing review process to periodically review Federally-qualified HMOs. It consists of quarterly and annual reporting of selected data by the HMOs and OHMO and on-site visits, where applicable.

R-27

Mr. Roybal. Are there adequate resources to cover the growth in properly qualified Medicare HMOs?

Dr. Desmarais. Yes. During the past year, HCFA has increased the staff allocated to HMO activities in the regional offices and central office to handle the additional workload. We have managed to do this by reprogramming resources from other Agency functions. As we experience further growth in the number of HMO contracts, we will continue to reallocate our resources accordingly. We remain confident that we can meet the challenge brought on by this important Administration initiative.

CLAIMS REVIEW AND PROCESSING

R-28

Mr. Roybal. What actions is the Department taking to improve the current system of claims review and processing for Medicare continuing (long term) care services by developing more uniform and predictable review criteria and by balancing incentives for cost recovery for fiscal intermediaries with incentives for accuracy.

Mr. Desmarais. The Department recognizes the value of consistency and uniformity in contractor Administration of the Medicare program. In that regard, we have in the past few years become more directive in what we expect of the contractors in carrying out their medical review responsibilities.

This has been true in all program areas: you were particularly interested in such efforts as they pertain to continuing care services (e.g. home health and skilled nursing facility care).

With the assistance of the home health industry, we developed and implemented in September 1985 a set of data forms which require that home health agencies submit uniform information on physician treatment plans and services provided. Each fiscal intermediary (FI) is directed to review the information provided on the forms to determine whether services are provided in accordance with the physician's plan of treatment, and are medically necessary and covered under Medicare. We believe that the FI's will make more accurate, consistent determinations by using the data elements on the forms.

We recently prescribed a nationwide level of medical review of transfers from hospitals to SNFs: FIs review all transfers to hospital-based and 30 percent of the transfers to free-standing SNFs. This review should serve as an assurance that Medicare beneficiaries are not transferred before they are well enough.

WAIVER OF LIABILITY

R-29

Mr. Roybal. If the Medicare waiver of liability is eliminated, how will the Department insure that beneficiary access is not limited by nursing home or home health providers who limit their participation or turn questionable patients away as a result? What are the Department's views on the option of replacing the waiver with a system of prior-authorization?

Dr. Desmarais. We do not believe that discontinuing the favorable presumption will result in loss of patient access to skilled nursing homes or home health care. Over 80 percent of all categories of providers make coverage determinations with almost no errors, as evidenced by their ability to qualify for the favorable presumption.

Its important to keep in mind that it is only the regulatory favorable presumption that we are eliminating. The statutory limitation on liability provision has not been altered. Therefore, providers still may show, on a case by case basis, that they did not know or could not reasonably have been expected to know that services were not covered by Medicare.

The Department is looking at prior-authorization in a pilot project at the present time. Data from this project will provide needed information on the feasibility and cost of instituting prior-authorization.

CARRIERS AND CONTRACTORS AND CLAIMS PROCESSING

R-30

Mr. Roybal. What is the impact of the current budget proposal on claims review and processing and on bill processing? How will fiscal intermediaries and carriers absorb what is in effect a 4 percent cut?

Answer. The major effect of the 4 percent Gramm-Rudman-Hollings mandated reduction will be to increase days work in process from 9 days under Part A at the end of FY 85 to 16 days by the end of FY 86 and from 11 days under Part B at the end of FY 85 to 18 days by the end of FY 86.

PATIENT CARE AND SERVICES

R-31

Mr. Roybal. What is the anticipated level of training funds and number of surveyors to be trained in the Patient Care and Services (PaCS) survey process? To what extent will budget cuts compromise the implementation schedule and level of training surveyors receive?

Dr. Desmarais. The first round of PaCS training was completed before the budget cuts took effect. While the second phase of PaCS training will be conducted by the regional offices and State survey agencies during the budget-cut period, these cuts will in no way hinder either the effectiveness or implementation or the quality of the training. The FY 1986 budget cuts have been made to the number of non-long term care surveys States will conduct and not to training resources provided in each States' budget. The implementation plan, for the PaCS survey process, calls for follow-up training in 6-12 months after evaluating the initial training.

INSTITUTE OF MEDICINE STUDY

R-32

Mr. Roybal. What is the Department's response to the findings and recommendations of the Institute of Medicine's study on nursing home regulation and quality? How will the Department integrate study conclusions into current and planned policies related to nursing home regulation?

Dr. Desmarais. After receiving the final report of the Institute of Medicine on nursing home regulation, we established a work group to carefully analyze the recommendations and develop a set of detailed proposals for consideration of top HCFA management. We will then forward our proposals to the Secretary for his consideration.

I would emphasize that we have anxiously awaited IOM's final report and are giving it the thorough review and analysis it merits.

HOME HEALTH

R-33

Mr. Roybal. What action is the Department taking to develop measures and approaches to quality assurance in the area of home health?

Dr. Desmarais. We have developed instructions for States to conduct visits to homes of beneficiaries receiving home health services to determine through an onsite verification whether Medicare health and safety requirements are met. Previously the home health survey process primarily involved a review of various records maintained at the agency.

- o We are clarifying our instructions to State survey agencies with respect to home health agency branches and subunits, to assure adequate supervision of personnel providing patient care.
- o We have assisted the Inspector General's Office in its review of care provided by home health aides.
- o State agency surveyors receive periodic training by HCFA staff concerning home health agency regulatory guidelines and interpretations.
- o Regional office personnel conduct monitoring surveys of a number of State agency HHA inspections to assure that regulatory requirements and surveyor guidelines are being followed.

REVIEW OF HOME HEALTH CLAIMS

R-34

Mr. Roybal. What data forms the basis to justify the increasing contractors' review of home health claims to 100 percent? Couldn't comparable reductions in errors be achieved by making the claims review process uniform and predictable?

Dr. Desmarais. Intermediaries are not reviewing 100 percent of home health claims. Rather, when we developed the new home health data forms, we told home health agencies to send the completed forms with the first bill and the bill closest to the recertification date. Since recertification occurs every 60 days and agencies bill monthly, this means that the form is sent with every other bill. We have instructed intermediaries to review the submitted forms; thus, intermediaries are reviewing roughly 50 percent of the bills, not 100 percent.

We agree with you that the claims review process should be more uniform. To that end, the data forms were developed to achieve a more predictable process, since all FIs will have the same information on which to base a decision.

R-35

Mr. Roybal. What percentage of waiver requests have been favorably reviewed and what is the average timeframe for the process? Please list by type of waiver (state, home, community-based).

Dr. Desmarais. Aproximately 71 percent (68) of the 96 Section 1915(b) "freedom of choice" waivers processed to a final decision as of February 18, 1986, were approved. Approximately 81 percent (123) of the 151 section 1915(c) "home and community-based services" waivers processed to final decision as of February 28, 1986, were approved.

The Medicaid statute requires that a 1915(b) or 1915(c) waiver request be either approved or disapproved or additional information requested within 90 days of receipt. In almost every case, the Health Care Financing Administration (HCFA) has had to request additional information before the waiver could be approved. Once the State responds to the request for additional information, HCFA must then approve or disapprove the waiver within 90 days of receipt of the additional information. Generally, almost 90 days are required to review the additional information and process the approval recommendations.

SOCIAL HEALTH MAINTENANCE ORGANIZATION

R-36

Mr. Roybal. Are there any plans to expand the Social Health Maintenance Organization concept in Medicare or Medicaid?

Dr. Desmarais. The current Social Health Maintenance Organization (S/HMO) demonstration embodies over 4 years of planning by HCFA and the Health Policy Center at Brandeis University. Due to the various delays in starting the project, the final evaluation report for the mandated four site S/HMO demonstration will not be available until 1990. At this time, we do not plan to conduct other demonstrations in the field until we have had a chance to review the evaluation findings.

However, with the growth of HMOs and CMPs under TEFRA and the competition fostered by this growth, we expect to see capitated plans offer long term care benefits beyond standard Medicare coverage as an incentive for new members. We plan to closely monitor any plans which decide to offer expanded benefits in this manner.

MEDICAID CAP

E-1

Mr. Early. The Administration is again proposing to establish a cap on total Federal reimbursements to States for Medicaid. Since the budget justification indicates that the projected growth rate for the program (8.0%) is "significantly lower" than that currently forecast for FY86 over FY85, why is a cap necessary?

Dr. Desmarais. The projected growth rate of 8 percent between FY 1986 and FY 1987 is lower than the growth rate in the previous year; however, it is still considerably above the rate of growth in the overall economy and also higher than the rate of growth in the health care sector of the economy.

The Federal deficit is still a major concern of this Administration and all areas of the budget have been examined and recommendations for reductions had to be made in most areas. The effect of the Medicaid cap in future years would be to bring the Medicaid program's rate of growth in line with the rate of growth of the overall health care sector.

E-2

Mr. Early. How did HCFA arrive at this particular cap level? What is the basis for capping reimbursements to states at 109% of the total amount a State spent during FY85?

Dr. Desmarais. The level of the reduction was arrived at through discussions within the Administration. The level represents an amount that would provide significant Federal savings without requiring the States to make inappropriate reductions to the services being provided to the beneficiaries currently covered.

The 109 percent figure represents the approximate difference between the FY 1987 capped level of $23.3 billion and the FY 1985 actual expenditures that will be used to determine the specific State share of the FY 1987 capped amount. This percent is a convenient way for an individual State to estimate their FY 1987 funding level.

E-3

Mr. Early. Doctor, did you have a particular savings target that you had to meet?

Dr. Desmarais. The budget process always operates in the context of targets to be acheived. There is, however, considerable give and take, and internal debate each year on how to translate the overall objectives and goals of the President into specific budget/legislative proposals. This same give and take was involved with this proposal within the context of the overall Departmental budget, as well as the HCFA budget. However, the policy objective was to bring the Medicaid program's rate of growth in line with the overall health care sector.

SAVINGS FROM CURRENT LAW ADJUSTMENTS

E-4

Mr. Early. The justification indicates that the savings achieved from this limitation represents a $1.3 billion reduction to the current services spending level for FY87. Since your budget request estimates approximately $1.4 billion in savings from "Current Law Adjustments", including $460 million from third party liability savings, mandating second surgical opinions, etc., where are the States going to find these additional savings?

Dr. Desmarais. The States must actually "save" $1 billion for FY 1987. The $1.3 billion reduction to the FY 1987 budget for the Cap proposal includes $300 million that would be allocated to certain States that were unable to limit their rate of growth despite sincere efforts to do so. The Cap reduction was calculated from the current services base estimate, which assumed savings of $275 million from a variety of third party liability regulatory initiatives. An additional $780 million is separately identified in the budget as a reduction, but it is only a compensating adjustment to the spending estimates submitted by the States, which in aggregate have been consistently overstated by several percentage points.

Moreover, the FY 1987 budget includes several proposals that would assist the States in their cost containment efforts. Two regulatory proposals to be implemented in FY 1987 will provide the States new savings opportunities: mandatory second surgical opinion programs and prescription drug reforms. Savings from these initiatives will be available to States to help them adjust to the Cap.

In addition, the Cap proposal would remove or modify a number of existing restrictions to provide the States with increased ability to manage their programs in the most cost-effective manner. The current program restrictions on the targeting of services to optional eligibility groups and optional services to all eligibles would be removed. Restrictions on institutional reimbursement and beneficiary copayments for optional eligibility groups would be revised.

Finally, the States have always had the opportunity to save money in their programs by rigorously enforcement of existing policies and improved eligibility quality control efforts. The national eligiblity quality control error rate still indicates that hundreds of millions of dollars are lost by providing services to individuals who are not eligible to receive Medicaid benefits.

STATE COVERAGE AND REIMBURSEMENT POLICIES

E-6

The budget request also states that this proposal will include a number of changes to the statute which would give states more flexibility in the design of coverage and reimbursement policies.

Mr. Early. Since you acknowledge in the justification that states already have considerable flexibility in structuring their programs within broad Federal guidelines, why are additional statutory changes necessary?

Dr. Desmarais. The basic direction of recent legislation has been toward more State flexibility (e.g., in hospital reimbursement, freedom of choice limitations, home and community-based waivers), efficiency (e.g. reductions in matching for excess costs, modifications of third party liability requirements), and program integrity (limits on Federal matching for erroneous payments, expanded authority for copayments).

There is no doubt that these changes have substantially contributed to States' success at controlling Medicaid costs while maintaining essential coverage levels. Additional statutory changes are now needed to continue this process of removing Federal requirements that unnecessarily prevent States from focusing limited Medicaid dollars most cost-effectively. The changes we are proposing are designed to give States a freer hand to target separate service packages to each eligibility group in the State, to decide how much their providers are paid, and to take into account more appropriately the resources of institutionalized recipients.

E-7

Mr. Early. Since this proposal is basically the same as last year's, tell us what changes will be proposed.

Dr. Desmarais. Among the statutory changes we are proposing to enhance State flexibility in determining Medicaid benefits are the following:

-- Service packages would no longer have to be comparable across all eligibility groups. The current list of mandatory services would be retained for mandatory eligibility groups, but States would be free to decide the types and extent of services to provide to other categories of eligibles.

-- States would no longer be required to offer all covered services on a Statewide basis.

-- States would be more clearly authorized to tap the income and resources of responsible spouses and parents of recipients in institutions.

- All requirements on payment levels would be deleted except that Medicare rates would continue as the upper limits.

- Federal restrictions on copayments and freedom of choice would be relaxed.

E-8

Mr. Early. Will these changes include eliminating mandatory coverage for certain categories of individuals (ex. AFDC, SSI)? Restricting automatic eligibility of these categories of individuals?

Dr. Desmarais. Our State flexibility proposals would neither eliminate nor restrict eligibility for current mandatory eligibility groups. States would continue to be required to provide these groups the current "core" set of mandatory services.

MEDICAID COVERAGE POLICIES

E-9

Mr. Early. Are you considering terminating Federal reimbursement for the "medically needy" category?

Dr. Desmarais. No. State spending for the medically needy would be reimbursed on the same basis as other parts of their Medicaid programs.

E-10

Mr. Early. Title XIX presently requires States to provide a minimum benefit package. Are you considering changes to this minimum benefit package? If so, what changes are under consideration?

Dr. Desmarais. We would continue to require States to provide the minimum benefit package to all mandatory eligibles -- primarily recipients of AFDC and SSI cash assistance. We would significantly reduce Federal constraints, however, on States' authority to design and tailor benefit packages to optional eligibility groups.

COVERAGE OF OPTIONAL SERVICES

E-11

Mr. Early. States may also elect to cover additional services such as drugs and dental care for which Federal funds are available. Are you considering eliminating or reducing Federal support of these optional services?

Dr. Desmarais. No. These services will continue to be supported on the same basis as mandatory services.

MATCHING RATES

E-12

Mr. Early. The proposed legislation would also eliminate all of the enhanced matching rates for administration and training. What is the rationale for this proposal? Why wouldn't we want to retain some enhanced rates as an incentive to improve program administration and efficiency?

Dr. Desmarais. The enhanced matching was established to encourage the States to initiate certain activities which would improve and make more efficient the Medicaid program. Once these activities were begun by the States, and their effectiveness proven, the need for further demonstration would, it would seem, no longer exist, and the need for the enhanced matching terminate. All of the enhanced matching which we propose to eliminate has been in effect for years, some since 1966 when Medicaid began. We then feel that, for example, the need for skilled medical professionals to be involved with the Medicaid administration no longer needs to be demonstrated and hence the 75 percent matching rate needs to be decreased to 50 percent. Further, the existence of these enhanced matching rates, some as high as 90 percent, lead to a certain amount of "gaming" on the part of some States in order to maximize the Federal support of the Medicid program.

LIMITING EXCESSIVE ADMINISTRATIVE COSTS

E-13
E-14

Mr. Early. You are also proposing to limit "excessive administrative costs" by further reducing the matching rate for States that exceed a set per recipient cost. To what extent is this a problem? Do we know why this cost tends to be so much higher in some States?

Dr. Desmarais. After careful review of the variations in per-recipient payment rates in the Medicaid program and examination of the possible causes of this variation, we have concluded that significant unexplained variation among States exists. States vary in their expenditures for administering the Medicaid program from $11 to $110 per recipient, with a median of $45. Efforts to link these expenditures to program intensity or complexity have, to date, failed; leading to the conclusion that some States conduct their Medicaid management functions less efficiently than others, at Federal expense.

E-15

Mr. Early. The threshold being proposed is 175 percent of the national median. Why was this particular threshold selected? Have you taken into consideration certain geographical differences such as wage rates, etc?

Dr. Desmarais. After consideration of various alternatives, the unit cost was chosen as the simplest and most meaningful, in the absence of more definitive performance measures. Utilizing the best available information on administrative costs, the proposal would use 175 percent of the median unit costs as rough measure of acceptable performance which also leaves sufficient room to avoid penalizing States for reasonable variation in State costs until a more definitive system can be developed.

We did consider geographic differences in our initial analysis of per-recipient rates. However, to keep our legislative proposal from becoming unnecessarily complex, and because such variations did not appear to significantly impact on the overall results, adjustments for such differences were not included in the proposal.

E-16

Mr. Early. What States currently exceed this threshold?

Dr. Desmarais. It is not possible to determine which States currently exceed the threshold since complete recent data from States regarding administrative expenditures has not been received and tabulated. However, in response to another question by Mr. Roybal, we have listed the States which would have been affected by this proposal and the amounts by which Federal payments to these States would have been affected if the proposal had been in effect in 1985. These States include North Dakota, Nevada, New Hampshire, New York, Oklahoma, Oregon, Utah, Vermont.

GROWTH OF MEDICAID RECIPIENTS

E-17

Mr. Early. What have been the largest growing categories of Medicaid eligible recipients -- the elderly, AFDC children --and is this trend expected to continue.

Dr. Desmarais. As a percentage of total recipients, the adult AFDC category has been the largest growing category. It has increased from 21 percent in 1975 to 25.3 percent in 1985. However, when the Medicaid recipient cost is compared to a percentage of total costs, the aged category has grown the most - from 26.7 percent in 1975 to 30.8 percent in 1985. This cost reflects the general increase in health care costs occurring nationally, and to the extent that these costs continue to rise then this category of recipient cost will increase.

E-18
E-19

Mr. Early. Would you outline how the Medicaid inpatient hospital pre-admission review program will work? What has been the State response to this initiative?

Dr. Desmarais. We have not yet worked out the details of an inpatient hospital preadmission review program. Any system we do work out will be included in our Medicaid utilization control regulations so that all States will follow them and will be designed so that necessary admissions are not delayed and physician review time can be focused for maximum efficiency.

We have not yet had any State reactions to this issue; however, we understand that the States which have already implemented such a review system have enjoyed some success with it. It is worth noting that States have latitude under current law and regulations to institute preadmission review programs.

SECOND SURGICAL OPINION PROGRAMS

E-20

Mr. Early. The justification also indicates that states will be required to have approved mandatory second surgical opinion programs for certain procedures. Briefly describe how this program would work.

Dr. Desmarais. States will be required to include in their Medicaid plan a program of second surgical opinions and where the two opinions disagree, a third opinion at the recipient's option to determine whether surgery should be obtained. This will apply to at least 10 selected elective surgical procedures furnished to Medicaid recipients. Federal financial participation would be denied for these procedures if the recipient did not obtain a second opinion (unless exceptions or waivers of the requirement were applicable). States with existing review programs that prevent unnecessary surgery and are cost-effective would be allowed to obtain HCFA approval of their program in lieu of meeting new requirements. Or, a State may substitute an alternative approach if HCFA finds that the proposed system will accomplish the same objectives of the regulation. Second surgical opinions would be required whether the elective surgical procedures were performed on an inpatient or outpatient basis.

E-21

Mr. Early. What happens if there's a difference of opinion between doctors, and the patient feels he/she should have the surgery?

Dr. Desmarais. The decision as to whether to have the surgery would be the patient's, unless the State finds as a consequence of reviewing the relevant information that the surgery is not medically appropriate or necessary. In this case, if the recipient decides to undergo surgery, FFP will not be available for the surgery.

E-22

Mr. Early. Doctor, there's been a great deal in the news about the crisis in medical malpractice insurance and the level of Medical malpractice litigation. Are these issues HCFA needs to be concerned about -- in terms of some of its proposals (second opinion, pre-admission review program etc.)?

Dr. Desmarais. The Administration is very interested in these issues. Presently, the Domestic Policy Council is looking closely at the broad area of liability and tort reform, and also at the specific issue of medical malpractice. Additionally, the Department of Justice has developed several legislative recommendations, which include:

- o a cap on Federal liability for noneconomic losses;

- abolition of collateral source documentation;
- periodic payments of judgments; and
- limitations on attorneys' fees

Dr. Bowen has appointed an in-house task force to explore whether Federal initiatives in the area of medical malpractice are appropriate; such initiatives would follow along the lines of the recommendations made by Justice. In the meantime, the Department encourages the States in their own efforts to initiate liability and tort reform.

The Administration also believes that incompetent physicians should be identified and prohibited from providing services to Medicare beneficiaries and the general population. The States have undertaken to perform these functions, primarily through their mechanisms for licensure and re-licensure. The provision in COBRA that requires the development of unique physician identifiers will also support this effort.

MEDICAL MALPRACTICE IN MASSACHUSETTS

E-23

Mr. Early. Doctor, I'm sure you are familiar with the "medical malpractice insurance crisis" in Massachusetts. As you know, faced with substantial premium increases, certain types of physicians, such as obstetricians and orthopedic surgeons declined to take on new patients or cases, etc. One of the factors or issues cited by some physicians/physician groups (particularly in the area of obstetrics) was the Medicaid reimbursement rate. Doctor, won't your Medicaid cap proposal, which is tied to FY 1985 State expenditures, exacerbate this type of situation--make the situation (of reimbursement rates) more difficult to resolve?

Dr. Desmarais. Problems that individual States are experiencing with participation by certain providers, such as obstetricians and orthopedic surgeons in Massachusetts, are attributable to State reimbursement practices. Under current Medicaid law, States set rates of reimbursement to providers which must be consistent with efficiency, economy, and quality of care. In addition, States must assure that payments are sufficient to enlist enough providers so that services under the Medicaid plan are available to recipients at least to the extent that those services are available to the general population. Complaints of low reimbursement rates which result in lessened provider participation is an issue to be addressed at the State level.

Under current law, the States have already made many different policy choices as to the number of eligibles covered, the range of services provided, and the generosity of its provider reimbursement system. We will be proposing a number of changes to give States more flexibility in managing their Medicaid programs. States that succeed in keeping Medicaid expenditures under control should see costs managed through increased efficiency, not by adverse program changes affecting any beneficiary or provider group in particular.

Concerning malpractice insurance, the Administration has formed a task force to study the malpractice problem and examine what, if any, role the Federal government should play in reforming the system. A report by the task force should be issued later this year. A number of States have been addressing this issue of malpractice. For example, the State of Indiana has a law which sets upper limits on the amount of potential suits and limits on legal fees for such cases while funding a compensation pool for patients from surcharges in insurance premiums. There is a review by a panel of three doctors of all cases and a report is filed with the court on its findings. These mechanisms have helped reduce malpractice insurance rates in Indiana; for instance, Indiana neurosurgeons on average spend only about one-seventh of that spent by New York neurosurgeons on premiums. The Administration supports such efforts to address the malpractice insurance crisis at the States level.

THIRD PARTY LIABILITY INITIATIVE

E-24
E-25

Mr. Early. How successful would you say the third party liability initiative has been, to date? How have the States, as a whole, responded to these efforts?

Dr. Desmarais. Identification of third party resources and cost avoidance are the keys to achieving TPL savings. HCFA has been and is working toward facilitating and enhancing the identification process. A final rule was published on November 16, 1985 which requires States to use a cost avoidance method of payment for claims processed after May 12, 1986, unless the State is granted a waiver by proving that its current method of payment is as cost effective.

HCFA has negotiated agreements with 26 States whereby SSA field offices collect detailed health insurance information from SSI applicants and provide TPL information to the Medicaid State agencies. This is an ongoing effort to phase in all States where the Social Security Administration makes the SSI and Medicaid eligibility determination concurrently ("1634 States"). HCFA is in the process of surveying the participating States to determine the effectiveness of the procedure to date.

HCFA has executed agreements with all section 1634 States (32) whereby SSA will obtain assignment of rights of payment for medical support by third parties from SSI/Medicaid applicants during SSA intake operations. The assigning of rights is a condition of eligibility.

HCFA has begun negotiations with the States whereby the Department of Defense has agreed to conduct data exchanges through the Defense Eligibility and Enrollment Reporting System. The exchange will identify Medicaid recipients who are eligible for CHAMPUS coverage through active or retired status with the military to collect medical expenses from CHAMPUS and cost avoid future expenditures. It is too early to determine the success of this project.

HCFA is developing regulations which will implement additional mechanisms for the identification of third party resources.

The following initiatives are included in the regulation:

- Requires all section 1634 States to enter into an agreement with HCFA to participate in the SSA program which collects health insurance information on SSI/Medicaid eligibles.
- In cases where the State Medicaid agency makes the eligibility determination, the State agency would be required to collect health insurance information.
- In cases where another State agency (other than the Medicaid agency) makes the eligibility determination, this agency would be required to collect health insurance information.
- Requires States to conduct data exchanges with specific State and Federal agencies:

  State Employment Security files
  SSA earnings files
  State Workers' Compensation files
  State Highway Accident files

- Requires States to use diagnosis/trauma code edits to identify accident related third party resources.
- Requires States to demonstrate effective and timely transmission of third party resource data provided by State, Federal and all other sources to the Medicaid State agency and incorporation into the eligibility file.
- The proposed regulation is currently pending review by the Department.

MEDICAID ADMINISTRATIVE COSTS

E-26

Mr. Early. Will the limitations/reductions you are proposing for Medicaid administrative cost reimbursement impede efforts in this area?

Dr. Desmarais. All states have money invested in expenditures for reimbursing vendors so that they have state's interest at heart in collecting from third-parties the same as the Federal government. They will continue to receive reimbursement for their efforts, albeit at a reduced rate.

E-27

Mr. Early. This effort, as well as others, involves data matches and/or reviews of medical cases. What steps is HCFA taking to ensure that the necessary confidentiality of information and patient confidentiality is being maintained?

Dr. Desmarais. Our regulations require States to only disclose information directly connected with the administration of the Medicaid program. They provide for the types of information to be safeguarded, conditions for release of safeguarded information and restrictions on distribution of other information.

REVIEWS OF PHYSICIAN'S WORK

E-28

Mr. Early. Doctor, the number and intensity of reviews of a physician's work and decisions -- in terms of medical necessity and competency is being encouraged. I recently read about a case where a doctor who received an unfavorable review alleged antitrust violations and won. Doctor, to what extent are, or will these reviews become factors in allegations of antitrust violations or medical malpractice? To what extent (1) do we need to be concerned about this? and (2) had HCFA examined these issues? Are any studies underway? Do you have any planned for either FY 86 or FY 87?

Dr. Desmarais. The primary protection from litigation afforded physicians involved in the conduct of the Federal PRO program is set forth in section 1157 of the Social Security Act (42 U.S.C. 1320c-6). Section 1157(a)-(c) provides protection from criminal prosecution and civil liability to individuals who provide information to a PRO or perform duties required under a PRO contract, so long as certain conditions are met, e.g. the information was not false, the duty was executed with care. Furthermore, in the event a suit is brought against an employee or a member of a PRO related to the performance of their PRO duties, section 1157(d) provides for the payment of legal costs involved in the defense of the action.

Based upon these provisions, we believe that physicians who perform duties pursuant to a PRO contract, and in accordance with the conditions set forth in section 1157, would be protected from criminal and civil actions brought as a result of their performance of these duties. However, to the best of our knowledge, these provisions have never been put at issue in a case involving allegations of violations of anti-trust laws. The Oregon decision described in the New England Journal of Medicine article dealt with a State peer review statute. Furthermore, given the diverse fact situations that might be presented, as well as the complex nature of antitrust litigation, it is obviously impossible for us to predict how an individual case might be decided by a judge or jury.

In addition to the limitations on physician liability set forth in section 1157, the disclosure of confidential PRO information is limited to the narrow circumstances set forth in section 1160 of the Social Security Act (42 U.S.C. 1320c-9) and the PRO Confidentiality Regulations.

Our research activities do not currently include any studies to examine these issues, nor are there any plans in FY 1986 or FY 1987 to initiate any studies to examine these issues.

FREEDOM OF CHOICE WAIVERS

E-29

Mr. Early. The justification indicates that 20 States have had freedom of choice waivers approved. Please provide for the record a list of these States and a brief description of the alternatives which have been approved.

Dr. Desmarais. As of March 31, 1986, 20 States have an approved Freedom of Choice Program. Following are brief descriptions of the Freedom of Choice program alternatives which have been approved:

1. Primary Care Case Management Programs:

The primary care case Management approach has been used to enable States to restructure the health delivery system in an efficient and cost-effective manner by increasing provider responsibilities in the overall management of recipient care. Primary care case managers are usually physicians; however, the case manager may also be an HMO, clinic or other qualified entity. Most approved primary care case - management programs restrict recipients to a particular provider for obtaining primary care services and for authorization to receive service. Under the authority of section 1915(b)(1), a recipient can be offered a choice of a primary care provider from among available HMOs and other primary care providers (e.g. physicians, a group of physicians, or clinics.) The following States have approved waivers for this category:

California
Colorado
Connecticut
Kansas
Kentucky
Massachusetts
Michigan
Nevada
New Hampshire
New York
North Carolina
Oregon
Pennsylvania
South Carolina
Tennessee
Utah
Washington
Wisconsin

2. Locality as a Central Broker

A locality may act as a central broker in assisting individuals in selecting among competing health care plans. This provides beneficiaries more information about the range of health care options open to them.

A locality is any defined jurisdiction, e.g., district, town, city, borough, county, parish or State. A locality may utilize any agency or agent, public or private, profit or nonprofit, to act on its behalf in carrying out its central broker function.

California and Utah are the only States which have an approved waiver utilizing localities as a central broker to provide information about competing health plans. Both the California and Utah waivers were approved in conjunction with a primary care case - management program. Utah - local government units provide clients, who have been certified for Medicaid assistance, with information about the range of health care options open to them.

California - functioning as a central broker in each area, the State would make available staff, either directly or under contract, to assist the beneficiary in the selection process, while acting to assure equal treatment of all plans.

3. Sharing of Cost Savings with Recipients

States may share with recipients cost savings (through the provision of additional services) resulting from the use of cost-effective medical care. Additional services include those offered by plans selected by recipients, as well as those offered expressly by a State as an inducement for recipients to participate in a primary care case - management system, a competing health care plan, or other arrangements that result in more cost-effective medical care. "Additional services" may be in the form of services not otherwise provided in the State plan, or in the elimination of copayment or increases in the amount, duration and scope of health services otherwise restricted in the State plan. Typically, these requests are approved in conjunction with requests to implement primary care case - management programs.

Kentucky	provides vouchers to purchase special assistance notcovered as a home health service
North Carolina	opted to allow recipients enrolled in the plan to be exempted from copayment charges, State visit and prescription limitations, and to receive preventative screening
Pennsylvania	provides additional services by eliminating copayments and extends coverage until the end of the month during which eligibility terminates
Tennessee	eliminated limits on physician services and outpatient clinic visits
Wisconsin	eliminated the imposition of copayments on waiver program participants in its Mental Health Gatekeeper program

4. Restriction of Recipients to Specified Providers

States may require recipients to obtain services only from specified providers who undertake to provide such services and meet specified reimbursement, quality and utilization standards provided that these restrictions do not apply in emergency circumstances.

Under approved waiver programs designed to restrict recipients to cost effective and efficient providers, States have targeted those services which have historically accounted for significant cost increase or which could be better controlled to decrease unnecessary utilization and enhance overall patient health care-management.

Restriction of hospital services through use of selective competitive bidding.

- California Illinois Kentucky
- New York Ohio Utah

Control of drugs through capitation and other cost effective methods to enhance patient drug therapy

- Washington

Control of physician and other outpatient services costs through capitation and other administrative mechanisms such as case-management.

- Kentucky Michigan Oregon
- Pennsylvania South Carolina Wisconsin

Mental Health Services

- Michigan Utah Wisconsin

FREEDOM OF CHOICE WAIVERS

E-30

Mr. Early. It also indicates that the most frequent finding of the HCFA review process is that states were not maintaining or monitoring cost-effectiveness documentation on an ongoing basis. What steps has HCFA taken to ensure that there is monitoring by the States?

Dr. Desmarais. HCFA is requiring States, as a condition of approval for waivers, to undertake independent evaluations of the waiver project with special emphasis on cost-effectiveness. Moreover, in order to obtain a waiver renewal, States must demonstrate that the project has been cost-effective and will remain to do so during the renewal period. In addition, HCFA is preparing further guidelines on the documentation requirements for cost-effectiveness to assist the States in complying with this requirement.

E-31

Mr. Early. Have any other problems arisen?

Dr. Desmarais. According to the FY 1985 review reports on Freedom of Choice Waivers, the States are performing satisfactorily in the areas of recipient access to services and the selection and monitoring of participating providers. In fact, the reports indicate that in many instances access to services and quality of care have been improved as a result of the waiver programs. The only frequent and significant finding identified was the lack of sufficient documentation to prove the cost-effectiveness of the waivers.

PREMATURE DISCHARGE OF PATIENTS

E-32

Mr. Early. There have been a number of articles and much discussion lately about the impact the DRG system is having on patients. It is said that patients are being discharged "quicker and sicker." It has also been reported that some patients are informed that they are/have to be discharged because their "Medicare DRG has run out." To what extent has this occurred? Has HCFA been receiving complaints about this from patients and doctors?

Dr. Desmarais. During the first PRO contract period, HCFA analyzed readmissions within 7 days as a proxy for premature discharge.

Beginning with the PRO program (and not including PPS discharges reviewed by PSROs and intermediaries), a total of 11.9 million PPS discharges have been subject to PRO review. Of this number 5,899 cases (0.05 percent) have been identified by PROs through February 1986 as potentially involving premature discharge. These 5,899 cases include problems identified by review of readmissions within 7 days and premature discharges identified through the review of other cases by PROs. These cases do not, however, include other quality problems referred by the PROs to Regional Offices.

As of February 1986, the number of PRO-identified Medicare readmissions within 7 days (391,617) represents an estimated 3.29/percent of total PRO discharges (a total of 11.9 million PPS discharges have been subject to PRO review) with about 72.2/percent of the reported readmissions being reviewed by PROs.

However, we recognize that the data collected and analyzed during the first contract period was incomplete and not definitive primarily due to delays in obtaining PATBILL and early PRO and FI reporting difficulties, the majority of which have been resolved. Furthermore, reporting requirements in the new Scope of Work will produce improved data collection and reporting responses.

HCFA has been receiving complaints about this. However, based on the data we have so far, we have had no evidence that premature discharge is a systemic problem, nor any evidence that the Prospective Payment System has had any adverse impact on quality of care for Medicare beneficiaries. We are, of course, concerned about any reports of Medicare beneficiaries being released by hospitals before they are well enough. These episodes are traumatic to the individuals involved and are totally unacceptable to the Administration. Whenever we receive any complaint, we request PROs to investigate and take appropriate action.

QUALITY OF CARE

E-33

Mr. Early. What procedures does HCFA have in place to monitor this situation?

Dr. Desmarais. PROs, under contracts with HCFA, are responsible for monitoring the quality of care given to Medicare beneficiaries in the acute care/hospital setting. To fulfill this responsibility, PROs have specific requirements:

- PROs are expected to identify quality of care issues in any case they review and to investigate and correct improprieties they identify.
- PROs must review certain readmissions to hospitals to assure that the readmission was not the result of substandard care in the prior admission.
- PROs review all transfers to other hospitals and to PPS exempt units or swing beds to assure that transfers do not take place before the patient is well enough.
- PROs develop and analyze hospital, physician, and patient data profiles to identify aberrancies which may be indicative of poor quality and thus require more intensive review. Such issues would include high surgical rates which may indicate unnecessary or inappropriate surgery. High mortality and high complication rates would also trigger further investigation.

When a PRO identifies a quality of care problem, it is required ~~to~~ take the following corrective actions to resolve the problem:

- 100 percent review of cases handled by the hospital or physician
- Financial penalties
- Termination of provider agreements
- Exclusion (sanctions) from the Medicare program
- In some cases, where the PRO determines the quality infraction was "gross and flagrant" (as evidenced by a violation which represents an imminent danger to the

health, safety or well-being of a Medicare beneficiary or unnecessarily places the beneficiary in a high-risk situation), HCFA expects the PRO to take immediate action to sanction in the interest of protecting Medicare beneficiaries from receiving substandard care.

In the Scope of Work for the next PRO contract cycle, we have refined the review techniques to improve the PRO quality review methodology and help the PROs to more easily identify quality problems. All cases under PRO review will be subject to:

- o Discharge review to identify premature discharges.
- o Generic quality screens to identify quality problems by focusing on:
    - + Discharge planning
    - + Medical stability at discharge
    - + Deaths
    - + Nosocomial infections
    - + Unscheduled return to the operating room
    - + Trauma suffered in the hospital

PROs will continue to focus on transfers to other hospitals and exempt units to identify problems with inappropriate or unnecessary transfers.

The review of readmissions will be expanded in the new Scope of Work. PROs will review readmissions within 15 days of a previous discharge. This review will identify premature discharges and readmissions for care which could have been provided during the first admission.

PROs will track and report separately on short stay cases (i.e., one and two day stays) to determine the magnitude of quality problems in these cases (e.g., premature discharges, deaths).

Hospital issued notices of noncoverage will continue to be monitored by PROs to assure that hospitals do not use this mechanism to pressure patients to either leave the hospital prematurely or inappropriately pay for covered care.

The Reconciliation Bill, recently passed by Congress will enhance PRO effectiveness in dealing with poor quality care. This bill authorizes PRO denials for substandard quality in accordance with PRO criteria and guidelines established by the Secretary.

E-34

Mr. Early. Has HCFA provided any guidance to hospitals thus far?

Dr. Desmarais. PROs are to work with hospitals to further understanding of the PRO program and PPS.

In addition, we have instructed all hospitals to give beneficiaries information upon admission about their appeal rights. We have issued standardized language which every hospital in the country will give to beneficiaries to enable them to better understand those rights.

We have instructed PROs to assure that hospitals provide beneficiaries with a written notice, meeting HCFA specifications, where the hospital determines that a beneficiary no longer needs to be there. PROs monitor hospitals closely to assure that those notices are only given when appropriate, that they are in writing, and that they accurately inform beneficiaries of their appeal rights.

PATIENT RIGHTS

E-35

Mr. Early. What steps have you taken to ensure that patients are aware of their rights?

Dr. Desmarais. One area of confusion to Medicare beneficiaries and their families has been the misunderstanding that a patient must be discharged once the "DRG is up." Clearly, this is not the case. The PPS system is based on payments which, on average for a DRG, will be adequate to cover the utilization of services. Some patients will have stays below the average, other above it. It is the responsibility of the hospital to provide all necessary services regardless of the length of stay. In order to increase beneficiary understanding of this fact, we have instructed all hospitals to give beneficiaries information upon admission about their appeal rights. In late February, a one-page statement "An Important Message from Medicare" was provided to all intermediaries in the country for distribution to Medicare providers who will distribute it to beneficiaries at the time of their admission to the hospital. We have also sent instructions to PROs concerning their monitoring of hospital compliance of the appropriate distribution of this information to beneficiaries and they were to begin monitoring on March 24. We will continue to monitor this process to assure it is in fact taking place, as well as using every opportunity to inform beneficiaries and their families that they should review this appeal information at the time of admission.

In addition, we are revising and consolidating the pamphlets which explain the appeals provisions under Medicare. We are also developing a new pamphlet to better educate Medicare beneficiaries and their families regarding hospital stays under PPS. The 1986 edition of Your Medicare Handbook has already been revised to include additional current information on a number of relevant topics, including appeal rights, to assure that the information is fully current.

E-36

Mr. Early. Does HCFA have any particular studies or evaluations planned in this area?

Dr. Desmarais. HCFA has a wide variety of studies underway related to assessing patients health status at time of hospital discharge, the adequacy of post-discharge services, and the effects of the prospective payment system on utilization of services, treatment patterns and health status outcomes. These include the following:

a. Methods for Determining Health Status at Discharge

This project is intended to develop and standardize a method for determining Medicare patients health status at the time of hospital discharge by assessing physical and mental functions and post-discharge treatment needs. This study is being conducted through a cooperative agreement with Northwest Oregon Health Systems.

b. Methods for Determining the Adequacy of Hospital Aftercare

This pilot project has the following objectives: First, the project will develop a reliable methodology for assessing: (a) patients' functional ability and dependence at discharge, and (b) patients' projected needs for post-discharge (aftercare) services, including continuing needs for acute care services. Secondly, the project will link data describing aftercare service needs and utilization as a means of assessing access and adequacy of these services. These data will be related to Medicare utilization and enrollment files to determine long-term utilization and health status outcomes of aftecare services.

c. Beneficiary Impact Study

The purpose of this internal HCFA study is to detect possible PPS effects on the quality of care by analyzing the outcomes of hospital care on the health status of the Medicare population, e.g., by analyzing mortality rates.

d. Hospital Practice Study

This study will measure the quality related effects of PPS by examining hospital usage and treatment patterns and their effects on inpatient and discharge status. This study is being implemented through a cooperative agreement with the Commission on Hospital and Professional Activities (CPHA).

e. Non-Intrusive Outcome Study

This cooperative agreement with the Rand Corporation is a long-term investigation into the feasibility of using Medicare administrative data to detect and monitor quality of care levels within individual hospitals for specific medical conditions.

f. ESRD Study

This study focuses on the issue of whether the Medicare ESRD hospitalized patients, as a high cost treatment population, is being adversely affected by PPS, and is being conducted through a cooperative agreement with the Urban Institute.

g. Clinical Analysis of PPS Impacts on the Quality of Inpatient Medicare Care.

This study is an in-depth clinical analysis of PPS effects on the quality of inpatient care involving a cooperative agreement with the Rand Corporation and selected PROs across the Nation. The study will evalute PPS impacts on quality by assessing potential treatment pattern effects and resultant health status outcomes through a thorough examination of the medical record.

h. Indexes of Hospital Efficiency and Quality

This cooperative agreement with CPHA is designed to produce a method for evaluating the relationship between quality efficiency levels within hospitals, useful in measuring the combined effects of PPS.

E37

Mr. Early. The budget request proposes to eliminate the provider nomination process and to allow providers to be assigned to intermediates without regard to their preferences. It also proposes to eliminate the provision that stipulates cost contracts for this program. What is the rationale for the proposed changes? Why are they necessary?

Dr. Desmarais. The proposal eliminates funding for intermediaries nominated by providers to process their bills. This language will stop providers from "shopping around" for the intermediary that gives them the best deal.

In addition, the language allows funds for other than cost contracts for the entities performing Medicare claims processing. After FY 86, when the DEFRA section 2326 authority expires, HCFA will only have experimental authority to use other than cost contracts. This funding flexibility is essential to continue the cost savings experienced by the contractors in recent years.

The language, also, allows our appropriation request to be reduced by 2.8 million. It will allow HCFA to tailor contracts to serve the needs of the Federal government, our fiscal agents and Medicare beneficiaries.

CONTINGENCY FUND

E-38

Mr. Early. Doctor, HCFA is requesting a $50 million contingency fund for FY 1987. This is substantially more than the contingency funds available in either FY 1985 or FY 1986. Why is this large increase necessary?

Dr. Desmarais. The contingency fund is intended to cover unanticipated workload and operating costs which may result from legislative, regulatory and/or programmatic changes. We believe that it is more appropriate during this time of fiscal restraint to adhere to tough budget estimating principles while increasing the elasticity to absorb new activities or new workloads. Thus we have increased our normal $15 to $20 million contingency request to $50 million.

RESEARCH STUDIES

Mr. Early. Your budget request assumes no new activities or studies in the category of research, demonstration and evaluation projects. Why is that? E-39

Dr. Desmarais. HCFA's requested research and demonstration budget permits continuation of all projects supporting congressional mandates. We have also reevaluated other current research and demonstration projects and determined them to be policy relevant. Therefore, we will be able to continue all current research and demonstration activities that will be on-going through FY 1987 at their existing funding levels within this requested budget.

Mr. Early. Are there areas where HCFA feels more or new research should be done if additional resources were available? Please list some of the areas to which you would give high priority. E-40

Dr. Desmarais. Yes, there are always many research and demonstration initiatives to be explored. However, we expect funding for projects to become available as soon as FY 1988 when current ongoing projects are completed.

HOME HEALTH

PU-1

Mr. Pursell. A 1985 preliminary report from the United States General Accounting Office which addressed the impact of the Medicare prospective payment system on post-hospital care stated that there has been an increase in the use of home health care services by Medicare beneficiaries. How can Federal payments to home health agencies be limited when the need for post-hospital care is greater than ever?

Dr. Desmarais. I want to emphasize that we are not proposing to reduce Medicare funding of home health care. In fact, we are projecting that home health expenditures will increase almost 14 percent in FY 1987.

Our proposal aims at controlling the increases in home health expenditures which have grown, since 1981, at an average compounded rate of over 20 percent a year. Our new cost limits are the first update of the cost limits since 1979 and reflect congressional direction to apply the rates by type of home health visit. By setting the cost limits for the first year at a generous 120 percent of the mean (and at 115 percent and 112 percent for subsequent years), we are providing home health agencies a transition period to improve their operating efficiency. We do not expect the cost limits will reduce access, and, in fact, we expect to see a continuing growth in the number of participating agencies relevant to the demand for services. Since 1981, the number of home health agencies has grown from 3,241 to the current level of almost 6,000.

We are also proposing initiatives to assure that only necessary and covered services are being provided. In the past, a study by the General Accounting Office, followed by a later study which we performed, showed that from one-quarter to one-third of home health visits reviewed were either not medically necessary or were not covered under the Medicare programs.

Consequently, we do not believe our proposals will have an adverse impact on our beneficiaries who need to obtain necessary, covered home health care.

QUALITY OF CARE

PU-2

Mr. Pursell. Is it not unwise to propose reductions in Medicare funding that may have an impact on the ability of hospitals to continue to provide access to health care services and to maintain adequate staffing levels both of which could affect the qualilty of care patients receive?

Dr. Desmarais. Taking into account all our proposals for FY 1987, Medicare payments to hospitals will still increase slightly in FY 1987. When considered with recent reports by the General Accounting Office and the hospital industry of the increased profitablity hospitals are experiencing, presumably resulting in large measure from PPS incentives to cost-effective operations, we believe hospitals will not find it necessary to take actions that limit access or reduce quality.

Although we know that there are some incidents of poor quality care, we have seen no evidence that a system-wide problem exists. The Peer Review Organizations will continue their duties to assure that only medically necessary care of high quality is provided to Medicare beneficiaries.

CHIROPRACTIC VISIT SCREENING

PU-3

Mr. Pursell. It is my understanding that the Secretary of the Department of Health and Human Services has decided to implement a new program in health care delivery, specifically relating to chiropractic care for seniors. Basically, the program -- effective December first of 1985 -- has instituted a review process by the individual Medicare insurance carriers after a patient's 12 visits to a chiropractor. There is concern in the chiropractic community that this new program will result in a reduction of services available to seniors. In the view of the chiropractor community, both the President and Congress repeatedly have indicated to seniors that there would be no reductions in their Medicare benefits. Some of my constituents who benefit from chiropractic services have written me to express their concern, as have chiropractors in my district. In their view, the review or screening process will cause a loss of necessary care, because the process can take so long -- six to nine months, I am told -- and that, in the interim, the patients go without treatment. The first question is, how much will it cost Medicare carriers to implement the review program?

Dr. Desmarais. Nearly all carriers already had a chiropractic screen; some had review parameters that demanded review sooner than our parameter does. Thus, the cost of implementing the review of chiropractic screens was minimal.

PU-4

Mr. Pursell. There are over 1750 chiropractors in Michigan. They treat an estimated one-and-two-tenths million Michiganders each year. In Michigan, chiropractors are licensed, primary health care providers, as are osteopaths. However, neither osteopaths nor medical doctors are subject to this 12-visit screen. In the view of the chiropractic community, these new regulations hence are discriminatory, because chiropractic patients are subject to the screen, while osteopathic and medical patients are not. Would you comment on that, please?

Dr. Desmarais. HCFA has not mandated a MD/DO 48-visits-per-year screen, although some carriers use such a screen. While Medicare reimburses MDs/DOs for many services rendered in their offices, Medicare can reimburse chiropractors only for manipulations of the spine. Thus, more office visits might be allowed to a MD/DO office, since that physician can ostensibly render more than one service. Neither the HCFA-mandated screens nor the medical review screens each carrier develops on its own are intended to single out any one type of practitioner over another. In fact, of the 16 HCFA-mandated screens, a large majority (12) are directed to care provided by MDs and DOs.

CHIROPRACTIC PATIENTS

PU-5

Mr. Pursell. What documentation can you provide to this committee that demonstrates that these new rules will not force chiropractic patients to go to other providers which, according to the chiropractic community, would result in more program costs?

Dr. Desmarais. We have no data or evidence that shows that patients whose chiropractic visits are denied go to other health care providers. Patients with subluxations who have received chiropractic treatment are probably unlikely to seek treatment in the form of conventional health care delivery.

PU-6

Mr. Pursell. It is my understanding that, prior to issuance of these new regulations, the Department conducted a six-month, 22-area pilot study to determine the feasibility of implementing the regulations. Could you describe for me the results of that study and provide for the record a copy of that study?

Dr. Desmarais. The chiropractic screen is not a regulatory requirement but is, rather, an internal operating practice for carriers. HCFA did conduct a pilot study: one of the screens tested was a chiropractic screen with a review threshold of one visit per month. The pilot study did not culminate with a published report. The data, submitted by the carriers, was manually tabulated, and a factsheet was prepared (copy attached). This factsheet was utilized in a meeting attended by carriers and HCFA regional office staff. At that meeting it was decided, based upon the information in the factsheet, to implement the chiropractic screen.

Subsequently, we met with chiropractors and modified the review threshold from review after one visit per month, to review after twelve visits per year are exceeded. This change was made in recognition of the differences in treatment for acute versus chronic conditions.

PU-7

Mr. Pursell. As I indicated earlier, there is some concern over the amount of time the review process will take. I would like to know what, if any, specific instructions have been given to the individual Medicare insurance carriers to assure that beneficiaries will not unduly suffer because of these new regulations?

Dr. Desmarais. Beneficiaries who are provided medically necessary services will not suffer. Medically necessary services will not be denied. In addition, if questionable services are denied, the beneficiary still has full appeal rights. Our regional offices, on a regular basis, assure that beneficiaries' appeal rights are protected.

We also have a review element in our Contractor Performance Evaluation Program which ascertains that contractors process the majority of claims in a very timely fashion. In addition, if the chiropractor accepts assignment, the beneficiary has no financial liability for any services for which payment is denied.

ADJUSTMENTS TO THE MEDICAID CAP

H-1

Mr. Hoyer. A cap on Federal expenditures for Medicaid would be inflexibile to possible increases in the number of poor and elderly. What steps does the Administration plan to ensure a continued commitment to the poor and elderly?

Dr. Desmarais. Federal Medicaid expenditures would not be reduced or frozen but would instead be allowed to increase after FY 1987 by the medical component of the Consumer Price Index. Each State's share of payments would be equal to its proportional share of payments received in 1985.

Extraordinary variations already exist among States' current Medicaid programs in what proportion of the poor are eligible, the range of services that are covered, and the generosity of provider reimbursement amounts. Given these differences, there is no simple way to make future adjustments in the proportional allocation of the Cap that do not have widely differing effects across the States.

We realize, however, that in the future there may be a need to reapportion funds among States based on changing circumstances, and will address criteria at that time which might be used in making reapportionments.

H-2

Mr. Hoyer. A cap on Federal expenditures for Medicaid would freeze States in their historical patterns and current programs. What allowance has the Administration made in its Cap proposal for States attempting to implement programs that are acceptable to the Administration and are reimbursed, particularly those programs that could save money? In view of our shared commitment to eliminating fraud and abuse and containing costs, why is the Administration proposing to reduce special matching rates for administrative costs? Why limit the ability of States with greater need for Medicaid management information systems, for example, to comply with the Schweiker amendment to the Mental Health Systems Act, Public Law 96-398?

Dr. Desmarais. The cap would not freeze States in their programs, they would continue to have the flexibility they now enjoy to change or restructure their Medicaid programs, and, within the growth of the medical cost index to expand their programs. The cap would not, of course, permit extensive expansion of existing Medicaid programs to cover populations or services not currently covered. As for administrative costs, these are not capped. We do, however, propose the elimination of enhanced matching for administrative costs such as those for the Medicaid Management Information Systems (MMIS) and their implementation as mandated by Public Law 96-398. This law, enacted on October 7, 1980, required States to establish MMISs and prescribed certain due dates, matching rates, penalties and so-forth. All States, including Maryland, for which a major exception was made in COBRA, now have these systems. They have demonstrated their usefulness and we feel that continuation of special matching rates to induce States to continue their usage is not reasonable. It is unlikely that, since MMIS saves State money, States will revert to their old systems.

PREMIUMS FOR INDIVIDUALS AND THIRD PARTY PAYERS

H-3

Mr. Hoyer. What is the rationale for establishing separate premiums, under the Medicare proposal, for individuals and for third party payers? With a cap on Federal expenditures for Medicaid, how can States such as Maryland that pay the Medicare Part B premium for Medicaid recipients provide adequate services for beneficiaries as costs rise?

Dr. Desmarais. The proposal to increase the Medicare Part B premium charged to third parties, such as States, to 50 percent would not be expected to have any impact on the Medicaid beneficiaries. These beneficiaries are currently not paying their own premiums, rather the States make the payment.

The impact of the premium increase on those Medicare beneficiaries who are not also eligible for Medicaid would be phased in over 5 years and still only partially reverses the trend that reduced the percentage of program costs covered by the premium from 50 percent to below 25 percent. In addition, there would be a hold harmless provision that will assure that no beneficiary will have his or her current net Social Security check reduced due to this change.

States would still have a strong incentive to buy in to the Medicare program. The Medicare Part B premium currently covers only 25 percent of the aged beneficiary's program costs. Combining this with the fact that the Federal Medicaid program will match the State payments for premiums for Medicaid beneficiaries who are cash-eligible, makes the current cost to the States approximately 14 percent of the value of the Medicare Part B services. Increasing the premium to 50 percent will still only increase the costs to the States of these benefits to 28 percent.

PREMATURE DISCHARGE OF PATIENTS

Y-1

Mr. Young. Since we've shifted to the prospective payment system for reimbursing hospitals for Medicare patient services, studies have been conducted that indicate elderly patients are being discharged after shorter periods of time and in poorer health than prior to the PPS system. What do your latest studies show? Has the prospective payment system caused a change in the quality of medical care available to older Americans?

Dr. Desmarais. A number of studies are currently underway within the Department related to examining the issue of quality of care. Currently, HCFA is investing over $5 million in extramural PPS quality of care research, not including its intramural program, and special studies to be performed by the PROs. Although preliminary results from some of these studies indicate that under PPS average length of stay for Medicare patients has fallen greater than the historical trend, there is no data available to indicate concurrent, systematic changes in the quality of care.

HCFA is undertaking a joint effort with the Office of the Assistant Secretary for Planning and Evaluation (ASPE) which will address issues pertaining to premature discharge, post-acute services, and cost-shifting. The basic approach of this study will involve developing a reliable method of (a) assessing Medicare patients' health status and needs for post-discharge services at the time of discharge, and (b) surveying the adequacy of post-discharge care in relation to patients' health care needs. As part of the post-discharge survey, patient and family burden (including financial burden) will also be assessed.

Y-2

Mr. Young. Have you done any studies to determine if shorter hospital stays have increased the demand for care by nursing homes, intermediate care facilities, or skilled home nursing services? This is of great concern to us in Florida where because of the large elderly population, there is already a shortage of these services in some areas.

Dr. Desmarais. Since PPS was implemented, there has been some increase reported in the percent of hospital cases discharged in nursing homes. A recent report from the Commission on Professional and Hospital Activities found the 1984 percentage of Medicare patients discharged to skilled nursing facilities from their client hospitals to be about one percentage point higher than historic trends would have predicted, and the percentage discharged to ICFs to be two-tenths of a percent higher. Neither increase was judged by CPHA to be statically significant. We do not yet have CPHA's findings for 1985. Our National Data suggests that the fiscal year 1985 percentage of PPS to SNFs rose to 5.9 percent versus 5.3 percent in fiscal year 1984, while the percent discharged to ICFs was 2.6 percent in both years.

PHYSICIAN FEE FREEZE

Y-3

Mr. Young. The concern has been expressed to me that if we continue to freeze Medicare reimbursement fees to physicians we will discourage doctors from treating Medicare patients. Have you done any studies to determine if the physician reimbursement fees has had any effect on the number of doctors that will take Medicare cases?

Dr. Desmarais. In September 1985, an award was made to Janet Mitchell of the Center for Health Economics Research for a three-year project to study that and other current Medicare physician payment issues. But we have not yet received any specific results. However, we have observed a large increase in assignment rates and the numbers of claims from all physicians since the freeze was implemented. We are confident that the growing supply of physicians has eliminated the prospect of any significant decline in beneficiary access to physician services.

Y-4

Mr. Young. During the past few years, I have expressed concern about the Administration's proposal to significantly raise the Medicare Part B premium. This proposal would raise the premium almost 75 percent above current law by 1991. Has any consideration been given to the effect such a large increase would have on the many older Americans living on small fixed incomes? These proposed premium increases greatly outpace the projected annual social security cost of living adjustements, so for many retirees, they may actually lose money each year when Medicare premiums increase.

Dr. Desmarais. The Part B premium was originally set to cover 50 percent of program costs. Over time it fell to a low of 24 percent of costs in 1981. The Administration proposal to raise it gradually to 35 percent of costs only partly reverses the trend to increased general revenue subsidization of the Part B premium. The proposal includes a hold harmless provision under which no individual whose Part B premium is deducted from his or her Social Security check would have his or her benefits reduced below the previous year's level as a result of the premium increase. This hold harmless provision assures that beneficiaries would not lose money as a result of a Medicare premium increase.

MEDICARE HOSPITAL DEDUCTIBLE

Y-5

Mr. Young. The Medicare hospital deductible rose this year from $400 to $492, a 23 percent increase. It's my understanding that this disproportionate increase was due in part to the imposition of the prospective payment system, which shortened hospital stays and raised the average daily cost of hospitalization. Legislation has been introduced to help offset this drastic increase this year. Has the Administration taken a position on this legislation?

Dr. Desmarais. We recognize that the dramatic drop in average length of stay and an increase in the case mix severity has caused a significant increase in the hospital deductible, since it is calculated on a per diem basis. This is an issue that is likely to be taken up as part of our study of appropriate coverage for catastrophic illness. Several approaches could be examined, including those currently under discussion in Congress.

MEDICARE HOSPITAL DEDUCTIBLE

Y-6

Mr. Young. What do you project the increase in the hospital deductible will be for next year?

Dr. Desmarais. Section 1813 of the Social Security Act requires that the Secretary of the Department of Health and Human Services (HHS) determine and publish, between July 1 and October 1 of each year, the amount of the inpatient hospital deductible applicable for the following year. Therefore, we will not know the actual amount of the 1987 deductible until the latest data are analyzed. These data will be available after July 1 and the analysis completed shortly before September 15, 1986.

Y-7

Mr. Young. As you are probably aware, Florida and Pinellas County were among the first areas in our nation where Medicare reimbursements for Health Maintenance Organizations were tried. A large number of my constituents signed up for these services. But I have received many complaints the past few years that the HMOs promised more than they can deliver. I have also received complaints about slow service, the unavailability of health care because of large patient demand, and problems with timely payments of bills to hospitals, doctors, and patients. This has been a problem in Pinellas County where some hospitals have seriously questioned whether they should continue to accept HMO patients because HMO payments for services are so slow. Have HMOs provided Medicare services as expected or has the system developed unforeseen problems?

Dr. Desmarais. We do not believe that the system has developed unforeseen problems. On the contrary, we believe that the program is working quite well. Although we have received some complaints from beneficiaries, the volume is quite small, especially considering that we have enrolled almost 600,000 beneficiaries in these types of plans. Furthermore, the program is quite new and still growing and questions, issues, and concerns raised by the beneficiaries, as well as the plans themselves, are to be expected as we move forward in implementing this program nationwide. Beneficiary concerns of the type you mention surfaced primarily in the areas of disenrollment and the application of the lock-in provision i.e., the requirement that the beneficiary seek all services through the HMO or the Competitive Medical Plan (CMP). The Department has taken positive action to address beneficiary concerns in these areas. Prior to implementing the Tax Equity and Fiscal Responsibility Act (TEFRA) we improved our computer system to ensure timely enrollment/disenrollment of Medicare beneficiaries. In addition, the processing of disenrollments has progressed to the point that beneficiaries can now inform plans of their desire to disenroll and have the disenrollment be effective on the first day of the next month. This is in strict compliance with the recently enacted Consolidated Omnibus Budget Reconciliation Act. Relative to potential beneficiary misunderstanding of the lock-in provision, we now ensure that all enrollment applications and marketing materials contain a clear statement explaining the lock-in provision and its implications. In addition, effective last summer, we took the extra step of sending each new enrollee a notice from our Central Office which explains the lock-in provision and reminds them of their Medicare appeal rights.

You indicated that in a certain county in Florida, HMO payments for services are slow. Payment delays by plans to providers, especially to non-contract consultants has been another area of concern. The problem appears limited to one plan and is not reflective of the program as a whole. Clearly, it is in the best interests of a plan to resolve such issues as quickly as possible. Inability to purchase provider services could lead to loss of both Medicare and commercial contracts.

We believe that the risk contracting program offers beneficiaries the opportunity to obtain quality health care which is generally less costly and more comprehensive than the traditional fee-for-service program. HCFA will monitor the HMOs/CMPs to assure that they are meeting the terms of their contracts. If payment delays are allowed to continue, the damage to the plan's reputation in the provider community could contribute to a loss of confidence on the part of Medicare beneficiaries and a resulting drop in enrollment.

HMO SERVICES

Y-8

Mr. Young. What do you see as the future for Medicare reimbursed HMO services? Can the HMOs continue to deliver all of their promised services at their advertised low rates?

Dr. Desmarais. We see a bright future for Medicare reimbursed HMO services. We believe the current risk contracting program will serve as a base, or foundation, upon which more expansive competition initiatives can be built. We firmly believe that capitation payments through HMOs and CMPs are vital to a competitive medical care delivery marketplace, and, as a result, serve as a positive force in controlling the cost of health care. Consequently we are proposing to build on the existing REFRA options through a voluntary voucher system. Under this plan, we would: allow indemnity insurers to quality for capitation payment; allow employers to combine Medicare with their own plans to secure a uniform plan for their annuitants without duplicative coverage; and eliminate some over regulatory requirements in current law.

MEDICAID CAP

Y-9

Mr. Young. The Administration's budget proposal for Medicaid calls for a cap on Medicaid payments to the States in 1987. The cap would limit Medicaid growth to 109 percent of 1985 State expenditures. This presents a serious problem to high growth States such as Florida where large population changes take place year to year. This presents a special problem to Florida which will begin implementation in July of expanded Medicaid services to many of our State's medically needy who were previously not eligible for Medicaid coverage. Will any consideration be given under your proposal to those States experiencing above average population growth or new program demand based on laws enacted prior to the proposal?

Dr. Desmarais. In 1987, a $300 million hardship fund will be available for States experiencing extraordinary costs above their limit. This fund will facilitate the transition to a capped program and will be available to States experiencing undue hardship. In the future, Federal Medicaid payments would be limited to increases as measured by the Medical Care Prize Index. Factors, such as changes in the elderly or poor populations, were not used to adjust future spending levels because of the extraordinary variations that already exist among States' current Medicaid programs. Variations exist in what proportion of the poor are eligible, the range of services that are covered, and the generosity of provider reimbursement amounts. Given these differences, there is no simple way to make adjustments to just one factor such as population growth that would not have widely differing effects across the States. We realize, however, that in the future, there may be a need to reapportion funds based on changing circumstances, and will address criteria at that time which might be used in making reapportionments.

N-1

Mr. Natcher. How much budget authority do you estimate will be required for payments to the Health Care Trust Fund in FY 1986?

Dr. Desmarais. Payments to the Health Care Trust Funds include four Federal payments. Three of the four payments are for the Hospital Insurance (HI) Trust Fund. The fourth payment is the Federal matching of premiums paid by or for individuals enrolled in the voluntary Supplementary Medical Insurance (SMI) program. We have not yet updated our estimate of required budget authority in FY 86 in light of COBRA, but will do so during the next update of the President's Budget.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

HEALTH CARE FINANCING ADMINISTRATION

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	Positions	Amount	Number
Grants to States for Medicaid	--	$24,708,122,000	1
Payments to the Health Care Trust Funds	--	20,357,000,000	40
Program Management	3,757	84,533,000	55

DEPARTMENT OF HEALTH AND HUMAN SERVICES

HEALTH CARE FINANCING ADMINISTRATION

Grants to States for Medicaid

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HEALTH CARE FINANCING ADMINISTRATION

Grants to States for Medicaid

Appropriation Language

For carrying out, except as otherwise provided, title XIX of the Social Security Act, [$17,918,000,000] *amounts specified herein, to remain available until expended.*

For making payments to States (other than Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, and American Samoa) for fiscal year 1987 for medical assistance $17,099,584,000: Provided, That no such State shall be entitled to payment for medical assistance costs incurred in fiscal year 1987 in excess of 109 per centum of the total amount the State expended for medical assistance under its State plan during fiscal year 1985 as determined on the basis of actual expenditure reports received by the Secretary as of January 31, 1986 and approved by the Secretary as of the start of fiscal year 1987.

For making payments to States (other than Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, and American Samoa) in cases of hardship, as determined under regulations of the Secretary, notwithstanding the 109 per centum limit described in the paragraph above, $300,000,000, which is the maximum amount the Secretary may obligate for these purposes.

For making payments to States (other than Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, and American Samoa) for administrative and training expenses for fiscal year 1987, $756,638,000: Provided, That no funds may be paid from this or any other appropriation to a State to reimburse expenditures claimed after October 1, 1986 under section 1903(a)(2), (3), (5), and (6) of the Social Security Act: Provided further, That notwithstanding title XIX of the Social Security Act, any use of funds appropriated under this Act by a State shall constitute that State's agreement to claim all future reimbursement for administrative costs under section 1903(a)(7) of the Act: Provided further, That in the case of any State (other than Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, and American Samoa) in which the ratio of total amounts of such administrative expenditures under its Medicaid State plan for fiscal year 1987 to the average monthly number of individuals receiving benefits under its State plan in that fiscal year (called "per recipient administrative costs") exceeds 175 per centum of the national median of all such ratios (such ratios being established by the Secretary of Health and Human Services on the basis of the best data available when the amount payable under section 1903 is determined, with subsequent adjustments made as necessary), no more than 25 per centum of the State's costs in excess of 175 per centum of the median of such per recipient administrative costs may be included in the amount payable from this or any other appropriation.

For making payments to States (other than Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, and American Samoa) for medical assistance for the first quarter of fiscal year 1988, $6,745,000,000: Provided, That the maximum amount available for medical assistance expenditures to a State for the first quarter of fiscal year 1988 shall not exceed the State's first quarter grant award for fiscal year 1987, increased or decreased by a percentage estimated by the Secretary to be equal to the projected percentage increase or decrease (as the case may be) in the index of the medical care expenditure category of the Consumer Price Index for all urban consumers (U.S. City average) for the 12 month period ending September 30, 1988.

For making payments to States (other than Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, and American Samoa) for administrative and training expenses for the first quarter of fiscal year 1988, and subject to the same limitations as apply to amounts appropriated herein for the current fiscal year, $337,700,000.

For making payments to Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, and American Samoa for fiscal year 1987, $51,900,000.

For making payments to Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, and American Samoa, for the first quarter of fiscal year 1988, $17,300,000.

[For making, after May 31, 1986, payments to States under title XIX of the Social Security Act, for the last quarter of fiscal year 1986 for unanticipated costs, incurred for the current fiscal year, such sums as may be necessary.]

Payment under title XIX may be made for any quarter beginning after June 30, [1985] *1986*, and before October 1, [1986] *1987*, with respect to any State plan or plan amendment in effect during any such quarter, if submitted in, or prior to such quarter and approved in that or any such subsequent quarter.

During the 18-month period beginning with the first month in which a refugee enters the United States, a refugee to whom cash or medical assistance is available under section 412(e) of the Immigration and Nationality Act shall be ineligible for assistance under titles IV-A and XIX of the Social Security Act.

[For making payments to States under title XIX of the Social Security Act for the first quarter of fiscal year 1987, $6,500,000,000, to remain available until expended.] *(Department of Health and Human Services Appropriation Act, 1986; legislative action required.)*

Language Analysis

Language Provision	Explanation
Provided, That no such State shall be entitled to payment for medical assistance costs incurred in fiscal year 1987 in excess of a 109 per centum of the total amount the State expended for medical assistance under its State plan during fiscal year 1985 as determined on the basis of actual expenditure reports received by the Secretary as of January 31, 1986 and approved by the Secretary as of the start of fiscal year 1987.	This section establishes a cap on total Federal reimbursement to States for medical assistance and provides that individual State grants will be allocated in proportion to the relative share of each State's expenditures for fiscal year 1985.
For making payments to States (other than Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, and American Samoa) in cases of hardship, as determined under regulations of the Secretary, notwithstanding the 109 per centum limit described in the paragraph above, $300,000,000 which is the maximum amount the Secretary may obligate for these purposes.	This section provides for a one-time hardship pool to facilitate the States' transition to a capped program.
For making payments to States (other than Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, and American Samoa) for administrative and training expenses for fiscal year 1987, $756,638,000; Provided, That no funds may be paid from this or any other appropriation to a State to reimburse expenditures claimed after October 1, 1986 under Section 1903(a) (2), (3), (5), and (6) of the Social Security Act: Provided further, that notwithstanding title XIX of the Social Security Act, any use of funds appropriated under this Act by a State shall constitute that State's agreement to claim all future reimbursement for administrative costs under section 1903(aX7) of the Act.	These provisions limit matching rates for State administration and training costs to no more than 50 per centum.

Language Analysis

Language Provision	Explanation
Provided further, That in the case of any States (other than Puerto Rico, Guam, the Virgin Islands, the Northern Mariana Islands, and American Samoa) in which the ratio of total amounts of such administrative expenditures under its Medicaid State plan for FY 1987 to the average monthly number of individuals receiving benefits under its State plan in that fiscal year (called "per recipient administrative costs") exceeds 175 per centum of the national median of all such ratios (such ratios being established by the Secretary of Health and Human Services on the basis of the best data available when the amount payable under Section 1903 is determined, with subsequent adjustments made as necessary), no more than 25 per centum of the State's costs in excess of 175 per centum of the national median of such per recipient administrative costs may be included in the amount payable from this or any other appropriation.	This section provides that a State's "per recipient" administrative costs in excess of 175 percent of the median for such costs will be Federally matched at 25 per cent rather than 50 percent.
Provided, That the maximum amount available for medical assistance expenditures to a State for the first quarter of fiscal year 1988 shall not exceed the State's first quarter grant award for fiscal year 1987, increased or decreased by a percentage estimated by the Secretary to be equal to the projected percentage increase or decrease (as the case may be) in the index of the medical care expenditure category of the Consumer Price Index for all urban consumers (U.S. City average) for the 12-month period ending September 30, 1988.	This section provides that each State's first quarter grant for medical assistance payments for FY 1988 may not exceed its first quarter grant award for FY 1987, as adjusted for inflation.

Language Analysis

Language Provision	Explanation
For making payments to States (other than Puerto Rico, Guam, the Virgin Islands, the orthern Mariana Islands, and American amoa) for administrative and training expenses for the first quarter of fiscal year 988, and subject to the same limitations as pply to amounts appropriated herein for the current fiscal year, $337,700,000.	This section provides that administrative expenses for the first quarter for FY 1988 are governed by the same funding restrictions as those for FY 1987, i.e., a single matching rate of 50 percent and a threshold on per recipient administrative costs.
During the eighteen-month period beginning ith the first month in which a refugee enters e United States, a refugee to whom cash or medical assistance is available under section 12(e) of the Immigration and Nationality Act all be ineligible for assistance under itle IV-A and XIX of the Social Security Act.	This section provides that Federal reimbursement under Medicaid will not be available for refugees who are already eligible for cash or medical assistance under the Immigration and Nationality Act administered by the Office of Refugee Resettlement.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

HEALTH CARE FINANCING ADMINISTRATION

GRANTS TO STATES FOR MEDICAID

Amounts Available for Obligation

		1985	1986	1987
1.	Budget authority	$21,845,491,000	$23,898,000,000	$24,708,122,000
2.	Appropriation available from Prior year	---	---	---
3.	Appropriation	21,845,491,000	23,898,000,000	24,708,122,000
4.	Comparative transfer from the Office of the Inspector General[1]	9,000,000	---	
5.	Indefinite appropriation	---	542,484,000	---
6.	Adjusted appropriation	21,854,491,000	24,440,484,000	24,708,122,000
7.	Unobligated balance Start of year	1,139,111,000	307,215,000	---
8.	Unobligated balance End of year	-307,215,000	---	---
9.	Unobligated balance lapsing[2]	---	-62,047,000	---
10.	Total obligations (grants)	22,686,387,000	24,685,652,000	24,708,122,000

[1] Of the total FY 1985 funding requirement of $37.5 million, only $28.5 million was included in the Medicaid appropriation. The remaining $9.0 million was included in the FY 1984 Departmental Management appropriation for the Office of the Inspector General.

[2] Unobligated balance associated with payment of prior year claims authorized by P.L. 97-276.

GRANTS TO STATES FOR MEDICAID

Summary of Changes

1986 Adjusted budget authority	$24,440,484,000
1987 Estimated budget authority	24,708,122,000
Net Change	+267,638,000

Explanation of Changes

	1986 Revised Base	Change from Base
Increases:		
1. State estimate - Medical Assistance Payments	$23,909,912,000	$+1,955,655,000
2. State estimate - Administration and Training	1,334,940,000	+62,952,000
3. Carryover into future years	-307,215,000	+307,215,000
Subtotal		+2,325,822,000
Decreases		
1. Third Party Liability savings	-65,000,000	-110,000,000
2. HCFA financing adjustment (prior years and current year)	-554,200,000	-200,800,000
3. Medicaid Quality Control Disallowances	---	-160,100,000
4. Prior year claims	60,000,000	-60,000,000
5. Unobligated balance lapsing	62,047,000	-62,047,000
6. Medicaid program initiatives	---	-293,000,000
7. Proposed legislation	---	-1,172,237,000
Subtotal		-2,058,184,000
Total Net Change		+267,638,000

GRANTS TO STATES FOR MEDICAID

Budget Authority by Activity

	1986 Appropriation	1987
Medical assistance payments	$ 22,613,060,000	$ 23,620,230,000
State and local administration and training	1,284,940,000	1,087,892,000
Total appropriation	23,898,000,000	24,708,122,000
Indefinite appropriation	542,484,000	---
Total budget authority, adjusted	24,440,484,000	24,708,122,000
(Obligations)	(24,685,652,000)	(24,708,122,000)

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GRANTS FOR STATES FOR MEDICAID

Budget Authority by Object

	FY 1985	FY 1986[1]	FY 1987
Grants, Subsidies and Contributions	$21,854,491,000	$24,440,484,000	$24,708,122,000
Total Budget Authority..	21,854,491,000	24,440,484,000	24,708,122,000
(Obligations).......	(22,677,387,000)	(24,685,652,000)	(24,708,122,000)

[1] Reflects shortfall authority of $542,484,000 effective in the fourth quarter.

Significant Items in House and Senate Appropriations Committee Reports

Items	Action Taken or to Be Taken
1986 House Report No. 99-289:	
MMIS Waivers	
The Committee directs the Department to review all waiver requests submitted under section 1903(r) and report back to the Committee by December 1, 1985 on the disposition of each State's request including the reason for the granting or denial of each petition. The Committee is particularly concerned as to why a State whose failure is acknowledged by HCFA to have been due to contractor failure would be denied an exemption.	The report on MMIS waivers will be submitted to the Committee under separate cover.
1986 Conference Report No. 99-402:	
Indefinite Appropriation	
In order to provide an accurate accounting of the amounts which may be made available under these provisions, the Secretary of DHHS is directed to submit by July 1 of the fiscal year a preliminary report indicating the best estimate of the amounts which may be required and made available under the shortfall authority.	By July 1, the Secretary will submit to the Committee a preliminary report showing the best estimate of amounts required under this shortfall authority. In the interim, this justification for the FY 1987 budget reflects current estimates of the amount which is projected to be needed in FY 1986 under the authority provided by P.L. 99-178.
As soon as possible after the end of the fiscal year, the Secretary and the Director of the Office of Management and Budget are directed to jointly submit to the Appropriation Committees a final accounting of the new budget authority actually made available during the fiscal year.	The Secretary and the Director of the Office of Management and Budget will jointly submit a final accounting of total budget authority made available for FY 1986 as soon as possible after the end of the fiscal year.

GRANTS TO STATES FOR MEDICAID

Authorizing Legislation

	1986 Amount Authorized	1986 Estimate	1987 Amount Authorized	1987 Budget Request
1. Grants to States for Medicaid (Social Security Act, Title XIX, Section 1901)	Indefinite	$24,440,484,000[1]	Indefinite	$24,708,122,000

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[1] Reflects shortfall authority of $542,484,000 effective in the fourth quarter.

GRANTS TO STATES FOR MEDICAID

Table of Estimates and Appropriations

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1976	$ 8,261,993,000	$ 8,261,993,000	$ 8,510,026,000	$ 8,520,026,000
1977	10,193,193,000	10,193,193,000	10,193,193,000	10,193,193,000
1978	11,765,000,000	11,413,400,000	10,699,000,000	10,699,000,000
1979	12,138,589,000	12,050,589,000	11,785,589,000	11,758,589,000
1980	14,865,629,000	14,735,139,000	14,705,139,000	14,705,139,000
1981	15,877,052,000	15,877,052,000	---	17,071,043,000[1]
1982	18,918,365,000	17,539,843,000	---	17,539,843,000[1]
1983	17,006,162,000	17,895,162,000	---	19,361,845,000[1]
1984	20,737,578,000	20,737,578,000	20,673,708,000	20,673,708,000
1985	21,213,000,000	21,213,000,000	21,845,491,000	21,845,491,000
1986	23,690,469,000	23,690,469,000	24,295,492,000	23,898,000,000[2]
1987	24,708,122,000			

[1] The Senate did not pass an appropriation for this account; appropriation column represents continuing resolution level.

[2] The FY 1986 Appropriation Act (P.L. 99-178) also provides indefinite authority effective in the fourth quarter of the fiscal year to expend such amounts as may be required to finance benefits in a given year if the appropriation proves inadequate.

JUSTIFICATION

GRANTS TO STATES FOR MEDICAID
(SOCIAL SECURITY ACT, TITLE XIX, SECTION 1901)

Authorization: Indefinite

Program Activity	FY 1986[1] Estimate	FY 1987 Request	Increase/ Decrease
Medical Assistance Payments (MAP)........	23,155,544,000	23,620,230,000	$ +464,686,000
State and Local (A&T) Administration ..	1,284,940,000	1,087,892,000	-197,048,000
Total Budget Authority	$24,440,484,000	$24,708,122,000	$ 267,638,000
Total Obligations.........	$24,685,652,000	$24,708,122,000	$ +22,470,000

Purpose of Method of Operation

Title XIX of the Social Security Act was enacted to assist States in providing medical care to their low income populations. Grants for medical assistance are made to States and jurisdictions having Medicaid plans approved by the Department of Health and Human Services. Including the Arizona Waiver, there is a Medicaid program in each of the 50 States, the District of Columbia, Puerto Rico, and the Territories. The Medicaid program finances health care services for approximately 23 million low income people, including approximately 4 million Medicare beneficiaries, and is the largest single funding source of health care coverage for the poor in the United States.

In general, eligibility for the Medicaid program is automatically linked to eligibility for the Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI) cash assistance programs. All AFDC and most SSI beneficiaries must be covered under the State Medicaid program. At their option, States may also cover other individuals, including the medically needy, who are not eligible for SSI or AFDC because they do not meet the income or resource standards, but who incur large medical expenses or have incomes slightly higher than cash assistance levels. Title XIX requires States to provide a minimum benefit package, including hospital inpatient and outpatient services, health screening services to children under 21, physician services, and nursing home care for individuals aged 21 or older; however, they may also elect to cover additional services such as drugs and dental care for which Federal funds are also provided. States have considerable flexibility in structuring their programs within broad guidelines established by the Federal government. Therefore, Medicaid programs can differ greatly from State to State.

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[1] Includes projected shortfall authority of $542,484,000 for medical assistance benefit payments.

The Medicaid program is administered by States and financed through joint Federal and State funding. Under current law, Federal funds are made available for medical benefit costs on the basis of a formula which determines the percentage of total program costs to be matched by Federal dollars. Under section 1905(b) of the Social Security Act, the rates may range from 50 to 83 percent, depending upon each State or jurisdiction's relative per capita income. Costs of administering the program are presently matched at various rates which range from 50 to 90 percent, depending upon the type of cost.

Medicaid operates as a vendor payment program whereby payments are made directly to the health care provider for services rendered to an eligible individual. Providers must accept the State's Medicaid payment as full recompense. By law, Medicaid is the payor of last resort, i.e., if any other party (including Medicare) is legally liable for certain services provided to a Medicaid recipent, that party must first meet its financial obligation before Medicaid payment is made. The budget request reflects strengthened third party liability (TPL) efforts in the Medicaid program which are discussed in more detail in the following pages.

Rationale for Budget Request

The amount requested for the Medicaid program in FY 1987 is $24,708,122,000, an increase of $22,470,000 over projected FY 1986 obligations. (The FY 1986 amount includes $542 million of shortfall authority effective in the fourth quarter, pursuant to P.L. 99-178.)

The request is based upon the spending estimates submitted by States during the November 1985 reporting cycle. The request includes a number of adjustments made to the State estimates to more accurately reflect the Federal share of program expenditures under current law. In addition, the request reflects passage of the Administration's legislative proposals. These adjustments and proposals are displayed and discussed on the following pages.

Current Law Adjustments to States' Estimates
(Dollars in Thousands)

	FY 1986	FY 1987
November States' Estimates (MAP & A&T)	$25,176,348	$27,197,128
State Certification Estimates	44,811	48,601
Fraud Control Units	42,931	44,153
TOTAL UNADJUSTED ESTIMATES	25,264,090	27,289,882
Less: Current Law Adjustments		
Financial Adjustments	-573,438	-781,423
Medicaid Initiatives	---	-293,000
TPL Savings	-65,000	-175,000
MQC Disallowances	---	-160,100
Prior Year Claims	+60,000	---
TOTAL CURRENT LAW OBLIGATIONS	24,685,652	25,880,359
Less: Unobligated Balance Start of Year	307,215	---
Add: Unobligated Balance Lapsing	62,047	---
SUBTOTAL	24,440,484	25,880,359
Less: Proposed Law	- - -	-1,172,237
TOTAL APPROPRIATION REQUIRED	24,440,484 1/	24,708,122

1/ Includes $542,484 shortfall authority.

Impact of Proposed Legislation
(Dollars in Thousands)

Total FY 1987 Current Law Appropriation Required		$ 25,880,359
Less Legislative Proposals		
Limit Federal Share of Medical Assistance Payments	-1,182,000[1]	
Hardship pool	+300,000	-882,000
Refugee Program Transfer		-30,237
Reform Federal Matching Rates for Administration		-260,000
FY 1987 Appropriation Request		24,708,122

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[1] Net of $118,000 savings associated with the second surgical opinion and prescription drug reimbursement regulatory proposals described under Program Initiatives on the following page. These proposals will assist States in meeting their Medicaid spending limits.

Current Law Adjustments

These adjustments to States' estimates are as follows:

1. Financial Adjustments

   Reductions of $573.4 million and $781.4 million, respectively, have been applied against aggregate FY 1986 and 1987 State estimates to more closely reflect actual Federal spending trends for recent years. These amounts primarily represent reductions to the State's projections based on State-specific analyses of program utilization and expenditure patterns. They also include adjustments associated with the finalization of prior period expenditures.

2. Program Initiatives

   The FY 1987 budget proposes to control the rapid rate of growth in Medicaid spending through a two-tiered approach. One involves legislative change which would limit the Federal share of medical assistance payments; that proposal is discussed later in this document. The second approach involves strengthening administrative and/or regulatory policy under current law. These efforts are expected to save $293 million and are as follows:

   a. States will be required to have an approved mandatory second surgical opinion program for selected high cost elective procedures as well as an inpatient hospital pre-admission review program. The goal of this proposal is to achieve cost effectiveness in surgical interventions by targeting for particular scrutiny certain high cost or superfluous surgical procedures. Ten States have already established second surgical opinion programs which have proven to be cost effective by reducing the volume of elective surgery. The combined savings resulting from these two programs is estimated at $80 million.

   b. The Department will take a number of steps to reform Medicaid reimbursement policy for prescription drugs. Several studies have shown that Medicaid State agencies are generally paying considerably more for drugs than necessary. The Department will focus reform efforts on increasing the use of new generic drug substitutes and establishing reimbursement limits, which reflect the actual availability of generic products, on multiple source drugs. These efforts are estimated to save $38 million.

c. The Department will aggressively pursue disallowances of Medicaid funds for payments to long term care facilities not in compliance with conditions of participation. The Department will also pursue disallowances for the use of Medicaid funds to provide vocational and educational activities offered in ICFs/MR. Federal regulations provide that ICFs/MR should furnish active treatment, training and habilitative services to Medicaid patients. However, reimbursement for vocational and educational activities is specifically precluded by regulation. It is estimated that combined savings from these disallowances will total approximately $75 million.

d. The FY 1987 budget assumes the promulgation of a major regulation strengthening third party liability (TPL) efforts in the Medicaid program. This regulation mandates, among other requirements, that States collect specific health insurance information during the eligibility determination process, utilize computerized edits on diagnosis and trauma codes to identify accident-related medical insurance use data obtained from State unemployment agencies (to identify Medicaid recipients who may have employment related health insurance), and perform data matches with State Worker's Compensation programs, Industrial Accident Commissions, and State highway accident report files. Savings from this regulation are estimated at $100 million.

3. Ongoing TPL Initiatives

In addition to the major TPL regulation cited above, it is projected that FY 1986 and 1987 costs will be offset by $65 million and $175 million, respectively, through several additional regulatory activities concerning the identification of TPL resources. These regulations deal with issues of cost avoidance, medical child support enforcement, and information sharing among State and Federal agencies, and are discussed in the section of this document entitled "Impact of Recent Program Changes."

4. MQC Disallowances

Savings associated with Medicaid Quality Control (MQC) disallowances are estimated at $160 million in FY 1987. This amount represents approximately $53 million in liabilities for Michel I and II sanctions, and $107 million for potential TEFRA disallowances for fiscal years 1983, 1984, and 1985.

5. Prior Year Claims

Section 2637 of the Deficit Reduction Act (DRA) of 1984 (P.L. 98-369) provides for the payment of prior year suspended claims involved in State of Connecticut vs. Margaret M. Heckler (court case number 81-2237) which the Secretary of the Department of Health and Human Services determines to be allowable. A restoration of $203 million in prior year funds was made in FY 1984 to cover the payment of the suspended claims. In FY 1984, $81 million was paid to the States involved in the court case. No payments were made during FY 1985, but approximately $60 million is expected to be paid to the States in FY 1986.

Proposed Law Adjustments

The Administration will shortly submit a legislative proposal to limit Federal Medicaid expenditures (other than Puerto Rico and the territories) for Medical Assistance payments to $23.3 billion. The savings achieved from this limitation represents a $1.3 billion reduction to the current services spending level for FY 1987. Federal spending in future years would be limited to inflationary increases as measured by the Medical Care Price Index. This legislative change would replace the present system of open-ended Federal payments to States. Federal payments to States would continue to match State expenditures, but only up to each State's individual growth limit.

The proposal will include a number of changes to the statute which would give States more flexibility in the design of coverage and reimbursement policies. States will be able to use these authorities to implement cost effective program reforms.

To facilitate the transition to a capped program, legislation will also be proposed to establish a one-time $300 million "hardship" pool in FY 1987. These funds will be allocated to States which, despite evidence of increased efforts to reduce program expenditures, experience extraordinary costs above their limit.

There will be no change to the current program for Puerto Rico and the territories. The legislative ceiling of $69.2 million established by the Deficit Reduction Act of 1984 will be maintained.

The Administration will also propose legislation to reform Federal funding for State administrative costs. That proposal would eliminate all of the enhanced matching rates; all costs for Medicaid administration and training would be Federally matched at a single rate of 50 per cent.

In addition, the proposal seeks to limit excessive administrative costs by further reducing the matching rate for those States whose per recipient administrative costs exceed an established threshold. This proposal would reduce reimbursement for high cost States -- those with total per recipient administrative expenditures exceeding 175 percent of the national median -- from 50 percent to 25 percent for those unit costs which exceed the 175 percent threshold. The proposal should encourage States with unusually high administrative expenses to reduce their costs by implementing program efficiencies.

National Trends

The unadjusted States' estimates of $27,197,128,000 for FY 1987 are $2,020,780,000 higher than the States' FY 1986 projections of $25,176,348,000. That $2 billion increase represents a growth rate of 8.0 percent, which is significantly lower than the 10.2 percent growth rate currently forecast for FY 1986 over FY 1985.

More than half of all Federal medical assistance payment growth projected for FY 1987 is attributable to three categories of services: Inpatient Hospital, Intermediate Care Facility/All Other, and Skilled Nursing Facility. These three service types, however, are expected to increase at rates lower than the anticipated overall program growth rate of 8.0 percent. A table displaying the distribution of medical assistance payment growth by all types of service is shown on the following page.

The following chart represents the Federal share of medical assistance payments, as estimated by the States, and broken down by category of service.

FEDERAL SHARE
MEDICAL ASSISTANCE PAYMENT ESTIMATES
FISCAL YEARS 1985 - 1987

(Dollars in Millions)

	FISCAL YEAR 1985		FISCAL YEAR 1986		FISCAL YEAR 1987	
	Amount	Percent	Amount	Percent	Amount	Percent
Inpatient Hosp.	$ 5,370	24.78	$ 5,613	23.45	$ 6,009	23.25
ICF/All Other	3,636	16.79	3,898	16.29	4,146	16.04
Skilled Nursing Facility	2,837	13.10	3,159	13.20	3,342	12.93
ICF/MR	2,682	12.38	2,928	12.24	3,105	12.01
Prescribed Drugs	1,323	6.11	1,466	6.13	1,616	6.25
Physician	1,370	6.33	1,503	6.28	1,595	6.17
Outpatient Hosp.	921	4.25	1,024	4.28	1,091	4.22
Health Insurance Payments	679	3.13	865	3.61	1,083	4.19
All Other	515	2.38	702	2.93	812	3.14
Mental Hlth. Fac.	641	2.96	713	2.98	763	2.95
Personal Care	411	1.90	555	2.32	615	2.38
Clinic	354	1.63	377	1.58	410	1.59
HCBS Waiver	167	0.77	277	1.16	331	1.28
Dental	266	1.23	292	1.22	308	1.19
Home Health	173	0.80	201	0.84	233	0.90
Other Practitioner	134	0.62	147	0.61	157	0.61
Lab & Radiological	116	0.54	134	0.56	150	0.58
EPSDT Screening	58	0.27	69	0.29	76	0.29
Rural Hlth. Clinic	6	0.03	6	0.03	7	0.03
Subtotal	21,659	100.00	23,929	100.00	25,849	100.00
State Estimated Cash Flow	29		-19		17	
Total State Estimates	21,688		23,910		25,866	

As previously mentioned, the States are projecting that institutional health care services will grow at rates lower than the aggregate rate of increase for the Medicaid program. FY 1987 growth rates for those services range from a low of 5.8 per cent (SNFs) to a high of 7.1 per cent (Inpatient Hospital). As a result, the table illustrates that although institutional services continue to represent the bulk of Medicaid spending, their relative share of total program costs is gradually declining over the FY 1985-7 period.

Just as the majority of program growth can be traced to a few institutional service categories, it is also linked to a handful of States. More than half of the projected increase in medical assistance payments is occuring in five States: California, Florida, New York, Ohio, and Texas. These States are anticipating growth rates ranging from a low of 7.4 percent in California to a high of 23.9 percent in Florida. The reasons for the increases projected by these States as well as a number of others are explained in the individual State narratives later in this justification.

RECIPIENT DATA

The following table reflects the estimated annual unduplicated number of recipients (by basis of eligibility) receiving Federal medical assistance under the Medicaid program. The data are based upon the November State estimates and annual statistical reports submitted by the States.

	Number of Recipients (In Thousands)		
	FY 1985	FY 1986	FY 1987
Aged 65 and Over	3,124	3,226	3,317
Blind and Disabled	2,917	3,015	3,114
AFDC Adults	5,516	5,632	5,772
AFDC Children	9,423	9,720	9,996
Other Children	1,203	1,301	1,400
TOTAL	22,183	22,894	23,599

IMPACT OF RECENT PROGRAM CHANGES

Medicaid legislation was enacted in 1965 to establish a medical program which would help meet the health care needs of poor Americans. The Medicaid program grew out of the earlier Kerr-Mills program of medical assistance for the aged.

During its start-up period from FY 1966-71, the program can be characterized as expansionary in nature, growing from a total (Federal and State) funding level of $1.6 billion in FY 1966 to $6.3 billion in FY 1971. During that period, expenditures grew primarily due to increases in population and utilization, as Medicaid rapidly expanded to cover more recipients and services. The Social Security Amendments of 1972, however, focused attention on cost containment principles in an attempt to manage the Medicaid program more efficiently and economically.

The Social Security Amendments of 1972 repealed then-existing statute which had required States to demonstrate efforts aimed at increasing scope of care and services; modified conditions of eligibility; imposed limits on Federal Medicaid expenditures; freed certain restrictions so that States could contract with health maintenance organizations; and, provided incentives for States to establish effective utilization review programs. Subsequent cost containment efforts have involved legislation which provided States additional flexibility to manage their programs, while others have come about through administrative improvements such as implementation of comprehensive third party liability and quality control systems. Examples of several efforts which have had significant impact on the Medicaid program are as follows:

o Increased Flexibility to States Regarding Reimbursement for Medicaid Services

P.L. 97-35, the Omnibus Budget Reconciliation Act of 1981 (OBRA), made changes in Federal law which afforded States the flexibility to adopt alternative reimbursement and delivery approaches under Medicaid.

OBRA deleted the requirement that States pay for inpatient hospital services on a reasonable cost basis. Instead, each State must base such payments on rates that the State determines, and makes assurances satisfactory to the Secretary, are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated facilities. This authority also conforms with the statutory requirements for long-term care facility services as amended by P.L. 96-499 (Omnibus Reconciliation Act of 1980).

Prior to the enactment of OBRA, only 12 States had adopted alternative hospital reimbursement systems. The other States either followed Medicare payment principles or were operating under approved demonstrations or payment experiments. OBRA was intended to give States greater flexibility to develop alternatives to reasonable cost reimbursement systems, since those systems are considered to be inherently inflationary and contain no incentives for efficient performance. Thirty-eight States now opeate alternative hospital reimbursement systems, 11 of which are based on Medicare's prospective payment system.

In summary, States have used the increased flexibility provided under these laws to make changes to their previously approved reimbursement practices. Generally, the impact of these changes on budget estimates has been to slow the rate of increase in expenditures for inpatient hospital and institutional long-term care services.

OBRA flexibility also encouraged Medicaid agencies to make greater use of HMOs and other prepaid health plans. For example:

- It became possible for States to contract with HMOs other than those that met all the requirements for a Federally-qualified HMO; State-established requirements were acceptable.
- Requirements limiting the proportion of HMO enrollees who could be Medicare and Medicaid beneficiaries were eased; the proportion increased from 50 percent to 75 percent.
- States were permitted to continue providing Medicaid benefits to an HMO enrollee for a period of up to 6 months, even if Medicaid eligibility expired before the end of that period.
- Waivers of selected Federal requirements were authorized to allow States to purchase certain services through competitive bidding or other methods.

Prepaid health care plans are rapidly growing in the Medicaid program. Since FY 1982, the first full year of implementation following enactment of OBRA, Medicaid enrollment has doubled, growing from slightly over 300,000 to nearly 700,000 recipients in 29 States.

- Third Party Liability (TPL) Initiatives

The law requires that Medicaid be the payer of last resort for claims of medical assistance for its recipients. Medicaid State agencies are required to identify and pursue for recovery Medicaid claims for which a third party insurer may be liable. Types of third party liability include private health insurance policies; medical support from an absent parent; automobile insurance policies in States with "no-fault" insurance; court judgements or settlements with a liability insurer; State Worker's Compensation; or other Federal programs. Currently, all Medicaid jurisdictions have TPL programs which are recovering payments or avoiding some portion of the Medicaid expenditures that are the liability of a third party. HCFA has established several initiatives to improve State TPL operations and is embarking upon intensified efforts to improve TPL collections and cost avoidance savings. For example:

1. During 1985, HCFA published a final regulation which mandates the use of a cost avoidance claims payment method unless the State proves that its current method is as cost effective. Under the cost avoidance method, States do not pay claims that are the responsibility of third parties; providers must bill the liable third parties directly.
2. The Department published final regulations on October 16, 1985 which require State IV-D (Child Support) agencies to petition for the inclusion of medical support in child support orders for absent parents and to provide medical support information to the State Medicaid agency. These activities increase the use of available third party resources from private health insurance, thus increasing medical cost savings to the Medicaid program.

3. HCFA has initiated regulations which will require States to implement specific mechanisms to improve the identification of third party resources (i.e., data exchanges with other State agencies, trauma code edits, collection of health insurance information from applicants/recipients). These regulations are expected to be published in final in FY 1986.

4. In FY 1985, HCFA initiated a targeted audit approach which focuses on identifying those States with initial indicators of poor TPL performance and high dollar vulnerabilities, and then performing targeted audits to document program disallowances. These disallowances would be based on error rates developed from the audit sample and projected to the universe from which the sample was drawn. Initial efforts in FY 1985 alerted all States to increase TPL oversight and will allow development of additional TPL program data to assist in targeting audits in FY 1986.

5. In a continuing effort to improve State TPL operations and maximize savings, HCFA has negotiated an agreement between the Social Security Administration (SSA) and Medicaid State agencies whereby SSA field office personnel will collect detailed health insurance information from Supplemental Security Income (SSI)/Medicaid applicants during SSI intake operations. This health insurance information is provided to Medicaid State agencies for use in their TPL recovery and/or cost avoidance systems. HCFA will continue to execute agreements with States to implement the HCFA/SSA TPL Recovery Procedure. There are 32 States in which SSA makes SSI/Medicaid eligibility determinations concurrently. As of October 1, 1985, 18 of those States had implemented the TPL Recovery Procedure.

6. Under Section 2367 of the Deficit Reduction Act of 1984, Section 1902(a) of the Social Security Act was amended to provide for mandatory assignment of rights of payment for medical support and other medical care owed to recipients. Effective October 1, 1984, assignment of rights of payment by Medicaid recipients became a condition of Medicaid eligibility. HCFA has been assisting States in implementing this requirement.

7. In FY 1986, HCFA will begin national implementation of the Defense Enrollment Eligibility Reporting System (DEERS) Data Exchange. The objective of such an exchange is to identify persons eligible for medical benefits under Medicaid and the military health care system which includes Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). All States will be encouraged to participate in the data exchange.

- Income and Eligibility Verification Procedures (Section 2651 of Deficit Reduction Act of 1984)

The Deficit Reduction Act of 1984 added a requirement for States to establish and operate an income and eligibility verification system. Under this system, income and other relevant information will be exchanged among various government agencies and used to verify eligibility and benefit amounts under Federally-financed State programs such as Medicaid, AFDC and Food Stamps.

State Medicaid agencies are required to obtain and use wage information from State unemployment agencies, unearned income data from the Internal Revenue Service, and income and wage data from the Social Security Administration.

The law compels Medicaid agencies for the first time to perform specified wage and income matches in determining eligibility and payment of benefits and requires all applicants and recipients to furnish their social security numbers as a condition of eligibility for Medicaid, so that these matches may be performed. Final regulations implementing these changes are expected to be published in FY 1986.

- Medicaid Quality Control

The Medicaid Eligibility Quality Control (MQC) program is a federally-structured system for measuring each State's erroneous payments made on behalf of individuals or family units who are ineligible for Medicaid benefits. The system relies on State quality control staff to conduct primary statistical sample reviews. Federal staff scrutinize a subsample of cases, and compute error rates using both State and Federal findings. The error rates can then be compared against those of other States as well as the national error rate targets established by Congress.

As a management tool, MQC provides valuable data on causes of errors for States to target corrective actions. MQC has proven successful in reducing the national Medicaid error rate--from 6.6 percent in 1978 to the current 2.7 percent, an almost $400 million savings in erroneous Federal expenditures. An integral part of the process is the statutory requirement to reduce Federal matching funds by the amount each State exceeds the error rate threshold, which is currently set at 3 percent. Although the States may request a waiver of the sanctions, the Secretary will invoke waiver authority only in cases of extraordinary circumstances. The threat of disallowances for exceeding MQC error rate thresholds has undoubtedly encouraged States to reduce errors.

- Home and Community-Based Waivers

The Omnibus Reconciliation Act of 1981 established the Home and Community-Based Waiver program under Section 1915(c) of the Social Security Act. This amendment to the Social Security Act authorizes the Secretary to waive certain Medicaid statutory limitations in order to allow States to offer a wide array of home and community-based services.

States are permitted, under waivers approved by the Secretary, to cover home and community-based services (other than room and board) for individuals who would otherwise require care in a skilled nursing facility (SNF) or intermediate care facility (ICF). The following services may be included under such a waiver:

1. case management services;
2. homemaker services;
3. home health aid services;
4. personal care services;
5. adult day health services;
6. habilitation services;
7. respite care services;
8. other services requested by the State and approved by the Secretary.

Waivers granted under section 2176 may also allow States to suspend the title XIX requirements that services be provided statewide and that services for comparable recipient groups must be the same in amount, duration, and scope.

In order to receive a home and community-based waiver, a State must provide assurances that: (1) necessary safeguards have been taken pertaining to beneficiaries' health and welfare and to financial accountability for funds expended on these services; (2) it will provide for an evaluation of the need for such services with respect to those entitled to SNF or ICF care; (3) individuals determined likely to require SNF or ICF care are informed of these alternative services; (4) the estimated average per capita expenditure for all services provided individuals under this waiver would not exceed what would have been spent for those persons without the waiver; and (5) information will be provided annually to the Secretary on the impact of the waiver.

As of December 31, 1985, the Secretary had approved 121 waivers in 46 States.

On March 13, 1985, final regulations were published for the home and community-based services waiver program. These regulations strengthened the requirement that States protect the health and welfare of recipients of waiver services, by stipulating that all facilities offering waivered services must be in compliance with applicable State standards. The final regulations also serve to provide clarification regarding fiscal requirements which States must meet in order to administer effective waiver programs.

These waivers are approved for a 3-year period and can be renewed for additional 3-year periods based upon HCFA's determination of the State's compliance with the statute and the actual cost-effectiveness of the waiver. HCFA uses the information from annual expenditure reports, which the States are required to file for each approved waiver, and results of annual oversight reviews to make informed decisions regarding amendments to and renewals of waivers.

In addition to actual expenditure and recipient data, annual reporting requisites require that:

1. The State provide assurance that the average per capita expenditures estimated by the State in any fiscal year for medical assistance provided to these individuals under the waiver does not exceed the average per capita expenditure that the State reasonably estimates would have been made in that fiscal year for these individuals if the waiver had not been granted.

2. The State provide to the Secretary annually, consistent with a data collection plan designed by the Secretary, information on the waiver's impact on the type and amount of medical assistance provided under the State plan, and on the health and welfare of its beneficiaries.

The annual oversight review of each waiver encompasses all aspects of home and community-based waivers' administration. The reviews serve as alerts to current or potential problems with individual waivers. An overall analysis of waiver operations is made at the end of the fiscal year based on findings and conclusions from all reviews done during the year.

- Freedom of Choice Waivers

  Effective for calendar quarters beginning on or after October 1, 1981, the Secretary of the Department of Health and Human Services has authority to waive certain Medicaid requirements for a State, including the recipient's right to free choice of providers, in order to implement otherwise prohibited delivery modifications, provided the Secretary determines these to be cost effective and efficient and not inconsistent with the purposes of the Medicaid law. States may be granted waivers in order to do the following:

  1. implement a primary care case-management or specialty physician services arrangement,
  2. allow a locality to act as a central broker,
  3. share cost savings, and/or
  4. restrict the recipient's freedom of choice to cost-effective providers.

  As of December 31, 1985, 61 waivers had been approved in a total of 20 States.

  HCFA monitors the implementation and operation of freedom of choice waivers through an oversight review process. A complete review of each waiver must be conducted within 16 months of the effective date. These reviews are used to highlight current or potential problems with individual waivers and also to make informed decisions regarding renewals. For example, during FY 1984, the most frequent finding was that States were not maintaining and monitoring the cost-effectiveness documentation of their waivers on an ongoing basis. It is expected that approximately eight waiver reviews will be conducted in FY 1986.

- Medicaid Management Information System (MMIS)

  The MMIS program was introduced in FY 1972 to provide Federal and State Medicaid program managers with a tool for better management control of the expanding Medicaid program. An MMIS involves computerized processing of large volumes of provider claims and provides more accurate identification and verification of eligible recipients and providers, and improved claims payment and fiscal control. It also retrieves management information on providers, recipients, and claims for improved State plan administration and Federal reporting. The system must be capable of developing profiles which are sufficient to provide specific information as to the use of covered services and medical items, including prescribed drugs. The State must also provide that information obtained from the system, such as probable fraud or abuse, be made available to the State Medicaid Fraud Control Units.

Enhanced matching rates were authorized by the Social Security Amendments of 1972 to provide incentives for the development, installation and operation of such systems. Since then, all States which are required to do so have installed certified systems. Currently, 45 States and the District of Columbia have HCFA-approved operating systems. Five States have been waived from compliance with MMIS requirements due to the small size of their Medicaid programs, and the territories are not subject to the MMIS requirements.

States have the option of developing and operating an automated eligibility determination system in conjunction with MMIS. The District of Columbia and 45 States are developing automated eligibility determination systems in conjunction with MMIS.

EXPLANATION OF CHANGES IN STATE ESTIMATES
GROWTH BETWEEN FY 1986 - 1987
MEDICAL ASSISTANCE AND ADMINISTRATION PAYMENTS
(Dollars in Thousands)

	FY 1986	FY 1987	DOLLAR GROWTH	PERCENT GROWTH
New York	$ 4,581,007	$ 4,975,218	$ 394,211	8.61
California	2,621,234	2,815,091	193,857	7.40
Texas	937,319	1,112,839	175,520	18.73
Florida	668,453	827,921	159,468	23.86
Ohio	1,275,391	1,425,805	150,414	11.79
New Jersey	696,489	771,243	74,754	10.73
Pennsylvania	1,236,870	1,308,073	71,203	5.76
Michigan	1,123,365	1,191,014	67,649	6.02
Tennessee	504,268	568,357	64,089	12.71
Subtotals	13,644,396	14,995,561	1,351,16	9.90
All Other States (48)	11,531,952	12,201,567	669,615	5.8134
Totals	25,176,348	27,197,128	2,020,780	8.03

EXPLANATION OF CHANGES IN STATE ESTIMATES GROWTH BETWEEN FY 1986 - 1987

NEW YORK		
	TOTAL:	$+394.2 million, +8.6%
	MAP:	$+382.7 million, +8.8%
	ADM:	$+ 11.5 million, +4.7%

Over the past few years, Federal share medical assistance payment (MAP) expenditures for New York have increased significantly from $2.9 billion in FY 1982 to a projected $4.3 billion in FY 1986. The 8.8 percent growth forecast for FY 1987, however, is below the 10.3 percent average annual growth actually experienced since FY 1982. Past program growth has been primarily fueled by inflation and by a growing elderly population which requires more costly services. While these factors continue to account for the program's growth in FY 1987, cost containment-based alternative reimbursement methodologies are expected to temper some of the increase.

Price inflation in Inpatient Hospitals, Mental Health Facilities (MHFs), Intermediate Care Facilities for the Mentally Retarded (ICFs/MR), Skilled Nursing Facilities (SNFs), Prescribed Drugs and Personal Care services represent $224.7 million, or 83.3 percent of the total price-related growth. An overview of those increases follows.

Inpatient Hospital Costs

The New York Prospective Hospital Reimbursement Methodology (NYPHRM) was implemented in 1983 as an approved HCFA demonstration project and expired at the end of calendar year 1985. Rate inflation was reduced from 13.5 percent in 1983 to a projected 4.1 percent in 1985 as a result of NYPHRM. Recently, the State enacted legislation to continue the NYPHRM, with refinements into FYs 1986 and 1987 for all payors other than Medicare. Inpatient Hospital rate inflation in 1987 under the continued system is expected to be 5.0 percent, $43.0 milion.

Mental Health and Intermediate Care Facilities

Rate increases are projected at 17 percent and 12 percent, respectively, for MHFs and ICFs/MR. These rates of growth equate to a combined total increase of $90 million. These relatively high increases are largely due to price inflation, a decline in the number of days of care for persons residing in MHFs and ICFs/MR, and the overall lessening of economies of scale as the facilities' population decline.

Skilled Nursing Facilities

New York will begin a case mix reimbursement methodology in 1986 called Resource Utilization Groups for SNFs. This new system will allow reimbursement of facility needs based upon characteristics of the facilities' clients and is expected to match resources with patients' needs. Utlimately, this methodology will improve the management, planning, control and organization of SNFs. The estimated rate of increase for FY 1987 is 4.9 percent, or $36.5 million.

EXPLANATION OF CHANGES IN STATE ESTIMATES GROWTH BETWEEN FY 1986 - 1987

NEW YORK (Cont.)

Prescribed Drugs and Personal Care

Price increases of 11 percent and 5 percent are forecast for Prescribed Drugs and Personal Care services. This will result in increased expenditures of $29.4 million and $26.1 million, respectively.

CALIFORNIA	TOTAL:	$+193.9 million, + 7.4%
	MAP:	$+185.4 million, + 7.6%
	ADM:	$+ 8.5 million, + 4.8%

Proposed provider reimbursement rate increases account for over two-thirds of the total medical assistance payment growth projected by California for FY 1987. The rate increases are relatively modest, however, as California assumes a 5 percent growth factor for nearly all categories of service.

Caseloads are expected to grow slightly due to cost-of-living adjustments in cash assistance need levels to AFDC and SSI recipients. This change will permit more recipients to enter the Medi-Cal program and will generate $20 million in additional medical assistance payments.

The remaining factor in expected program growth is attributable to further recipient increases in the high cost Disabled and Medically Needy categories combined with rising utilization of Inpatient Hospital and Intermediate Care Facility services.

EXPLANATION OF CHANGES IN STATE ESTIMATES GROWTH BETWEEN FY 1986 - 1987

TEXAS		
	TOTAL:	$+175.5 million, +18.7%
	MAP:	$+176.2 million, +20.3%
	ADM:	$- 0.7 million, - 1.0%

Approximately 40.0 percent of Texas' medical assistance payments are made through a premium arrangement with a health insurance agent. Services covered under this arrangement include Inpatient and Outpatient Hospital, Physician, Laboratory and Radiology, Optometric, Audiological, Ambulance, and Rural Health. Premium payments, which are negotiated annually and paid monthly for each eligible recipient, are expected to rise by $42.5 million in FY 1987. This anticipated premium increase is distributed as follows: $23.2 million for Inpatient Hospital, $12.0 million for Physician, $3.5 million for Outpatient Hospital, $2.5 million for Laboratory and Radiology, and $1.3 million for the other services covered by the health insurance arrangement.

In the service categories not covered under the premium payment plan, Texas is projecting program growth totaling $43.6 million. The State expects price inflation to account for most of the growth with utilization rates remaining relatively level with the exception of Mental Health Facility and Personal Care services. The State's coverage of Mental Health Facility services effective January 1, 1987, is expected to create a growth of $7.8 million in medical assistance payments. Increased utilization of Personal Care services will account for an increase of $4.0 million. Higher reimbursement rates will be largely responsible for increases of $11.3 million for Intermediate Care Facility (ICF)/All Other and $2.2 million for ICF/Mentally Retarded. The higher cost per prescription will be the driving force behind an increase of $7.1 million for Prescribed Drugs.

Caseload growth is expected to increase medical assistance payments by $45 million due to the State's expansion of its new medically needy program, as well as the statutorily mandated categorically needy coverage of pregnant women and children.

The magnitude of the increase in Texas' projected medical assistance payments between FYs 1986 and 1987 is distorted by a $45.0 million variance in the cash flow adjustments (primarily premium credit refunds) which are expected to reduce the funding requirement in each of the two years. Without these cash flow adjustments, Texas would be projecting program growth of $131.2 million, or 14.2 percent, in FY 1987.

EXPLANATION OF CHANGES IN STATE ESTIMATES GROWTH BETWEEN FY 1986 - 1987

FLORIDA		
	TOTAL:	$+159.5 million, +23.9%
	MAP:	$+146.2 million, +23.0%
	ADM:	$+ 13.3 million, +39.3%

Florida's national Medicaid ranking has steadily risen from 14th in FY 1982 to an expected 9th in FY 1987. Since FY 1982, the State has exhibited a consistently higher average annual growth rate when compared to the nation. Many factors have contributed to this high growth pattern, but the anticipated addition of 212,000 recipients to Florida's rolls due to the implementation of a medically needy program in July 1986 largely accounts for the significant growth from FY 1986 to FY 1987.

The overall medical assistance payment (MAP) growth of 23 percent is comprised of a 16 percent increase due to recipient/utilization expansions and a 7 percent increase for price inflation. Most of the caseload increment is in AFDC or AFDC-related eligibility groups. As a result, large percentage growths of over 20 percent are evident in the medical service categories which are traditionally used by these recipient groups. The following chart illustrates this point:

Services	FY 1986-1987 Growth (Dollars in Million)	Percent Growth
Inpatient Hospitals	$62	35%
Outpatient Hospitals	15	50%
Prescribed Drugs	13	25%
Physician Services	11	39%
Dental, Other Practitioner, EPSDT, Lab and X-Ray	4	37%
Total	105	

All other categories of service are expected to increase at growth rates of less than 20 percent and comprise the remaining $41.2 million anticipated MAP growth from FY 1986 to FY 1987.

Along with salary increases, the administrative costs associated with the implementation of the medically needy program will add $11.8 million to the program. Increased fiscal agent contract costs of $1.5 million explain the remaining change in administrative estimates from FY 1986 to FY 1987.

EXPLANATION OF CHANGES IN STATE ESTIMATES GROWTH BETWEEN FY 1986 - 1987

OHIO	TOTAL:	$+150.4 million,	+11.8%
	MAP:	$+148.7 million,	+12.0%
	ADM:	$+ 1.7 million,	+ 4.4%

Price inflation and rising utilization rates are each responsible for approximately 45.0 percent of Ohio's projected medical assistance payment growth in FY 1987, with miscellaneous other factors accounting for the remaining 10.0 percent. The combined impact of these factors is expected to lead to increases of $20.3 million for Skilled Nursing Facility, $15.0 million for Inpatient Hospital, $14.9 million for Intermediate Care Facility (ICF)/Mentally Retarded (Private), $13.5 million for ICF/All Other, and $9.9 million for Physician services, as well as $11.2 million for Prescribed Drugs. Growing enrollment in Health Maintenance Organizations will be largely responsible for an additional $33.0 million in Health Insurance Payments. The balance of the projected rise in medical assistance payments is attributable to the net effect of minor increases and decreases in all remaining categories of service.

NEW JERSEY	TOTAL:	$+74.8 million,	+10.7%
	MAP:	$+68.3 million,	+10.6%
	ADM:	$+ 6.5 million,	+12.9%

New Jersey will implement a medically needy program for the first time in April 1986. The full fiscal year operation of this program in FY 1987, as opposed to partial year operation in FY 1986, accounts for $18.8 million of the total medical assistance payments (MAP) growth from FY 1986 to FY 1987. Approximately, 203,000 medically needy eligibles are expected to be enrolled in the new program by the end of FY 1987.

Exclusive of the financial impact of the medically needy program, MAP expenditures are forecast to rise $49.5 million, or 7.9 percent over FY 1986. This rate of increase is slightly below the 9.0 percent average annual rate of growth since FY 1982. Price related factors explain $50.6 million of the growth while changes in utilization are expected to contribute to a $1.1 million decline.

Most of the 12.9 percent administrative growth is accounted for in non-Medicaid Management Information Systems' (MMIS) costs where expenditures are expected to increase $5.3 million.

EXPLANATION OF CHANGES IN STATE ESTIMATES GROWTH BETWEEN FY 1986 - 1987

PENNSYLVANIA

TOTAL: $+71.2 million, +5.8%
MAP: $+67.3 million, +5.8%
ADM: $+ 3.9 million, +5.7%

Approximately 90.0 percent of the total medical assistance payment growth projected by Pennsylvania for FY 1987 is attributable to rising price factors with the remaining growth due to higher overall utilization of services. Per diem rate increases of 5.0 and 4.7 percent will raise Intermediate Care Facility (ICF)/All Other and Inpatient Hospital by $19.8 million and $10.8 million, respectively, while an 8.3 percent increase in the average cost per drug claim will raise Prescribed Drugs by $6.7 million. Higher per diem rates will also account for increases of $7.2 million for ICF/Mentally Retarded and $3.6 million for Skilled Nursing Facility services.

New Health Maintenance Organization (HMO) enrollments are expected to raise expenditures by $31.5 million in FY 1987. This rising HMO utilization will be offset to a degree by decreases of $10.1 million and $9.8 million due to projected drops in patient-days in Inpatient Hospital and Mental Health Facility services, respectively. The remainder of the overall growth in medical assistance payments is attributable to the net impact of lower increases and decreases in all other service categories with the general trend being toward rising price factors and declining utilization (with the major exception of HMOs).

EXPLANATION OF CHANGES IN STATE ESTIMATES GROWTH BETWEEN FY 1986 - 1987

MICHIGAN
TOTAL: $+67.6 million, +6.0%
MAP: $+64.9 million, +6.0%
ADM: $+ 2.7 million, +5.8%

Price inflation is the primary cause of Michigan's projected medical assistance payment growth in FY 1987 inasmuch as the recipient population is actually expected to decline by approximately 1.5 percent. Rate increases of 4.7 percent for Inpatient and 5.0 percent for Outpatient will raise Inpatient and Outpatient Hospital expenditures by $12.2 million. Higher reimbursement levels will also account for increases of $12.6 million for Intermediate Care Facility (ICF)/All Other, $8.8 million for ICF/Mentally Retarded, and $4.3 million for Skilled Nursing Facility services. A 5.0 percent increase in fee schedules will contribute to the $3.0 million growth expected in Physician services, while a 10.5 percent jump in the average cost per prescription will lead to a $5.7 million rise in Prescribed Drugs. The increasing cost of prescription drugs is caused by two factors: normal inflation on existing drugs and the introduction of more expensive new drugs. The utilization trend away from institutionalization towards alternative care services will combine with price inflation to raise medical assistance payments for Personal Care/Home Health services by approximately $7.5 million. The remainder of Michigan's projected program growth is attributable to moderate increases in all other categories of service.

TENNESSEE
TOTAL: $+64.1 million, +12.7%
MAP: $+63.3 million, +13.0%
ADM: $+ 0.8 million, + 5.0%

Reimbursement rate increases account for over three fourths of the total MAP growth for Tennessee. The State has forecast an 11 to 12 percent price increase for most categories of service. Cost increases for Inpatient Hospitals and Clinics, coupled with rising per diem rates for Skilled Nursing Facilities and Intermediate Care Facilities, comprise $30.6 million of the price-related growth. Medicare co-insurance deductible, physician profile, and pharmacists' fee increases along with rising Prescribed Drugs costs explain an additional $12.4 million of the MAP price growth.

The balance of Tennessee's MAP growth largely stems from a 3 percent increase in the number of recipients.

STATE TABLES

Federal Medicaid Reimbursement to States 1/

(Dollars in Thousands)

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Request
Alabama	$ 345,303	$ 337,091	$ 352,820
Alaska	36,018	43,024	46,482
American Samoa	1,123	1,150	1,150
Arizona	61,122	66,678	78,502
Arkansas	293,469	292,551	303,624
California	2,360,549	2,621,234	2,815,091
Colorado	160,016	182,247	197,924
Connecticut	302,538	337,129	370,893
Delaware	36,950	40,527	42,234
Dist. of Columbia	174,199	183,456	187,751
Florida	564,443	668,453	827,921
Georgia	526,723	571,226	618,752
Guam	2,020	1,995	1,995
Hawaii	71,331	79,242	79,254
Idaho	51,767	62,804	67,478
Illinois	970,364	935,793	975,941
Indiana	456,864	555,464	588,161
Iowa	203,156	232,176	259,285
Kansas	140,580	141,750	146,970
Kentucky	417,443	435,611	471,140
Louisiana	480,988	536,929	572,574
Maine	180,428	182,580	196,338
Maryland	337,476	389,855	429,343
Massachusetts	802,730	805,925	826,910
Mass. (Blind)	14,889	15,418	16,360
Michigan	903,833	1,123,365	1,191,014
Minnesota	532,887	625,039	666,889
Mississippi	234,969	262,038	276,762
Missouri	389,010	360,772	383,486
Montana	79,981	72,932	76,699
Nebraska	102,579	110,934	116,236
Nevada	37,044	47,532	47,555
New Hampshire	77,163	77,300	81,757
New Jersey	610,523	696,489	771,243
New Mexico	112,642	125,330	136,043

STATE TABLES

Federal Medicaid Reimbursement to States 1/

(Dollars in Thousands)

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Request
New York	$ 3,963,981	$ 4,581,007	$ 4,975,218
North Carolina	460,164	529,825	563,293
North Dakota	70,367	77,803	80,688
N. Mariana Island	485	549	550
Ohio	939,445	1,275,391	1,425,805
Oklahoma	300,022	294,833	307,591
Oregon	173,085	192,792	203,527
Pennsylvania	1,098,889	1,236,870	1,308,073
Puerto Rico	63,400	63,400	63,400
Rhode Island	145,823	157,577	167,157
South Carolina	282,471	344,512	368,066
South Dakota	65,648	73,912	78,406
Tennessee	433,546	504,268	568,357
Texas	913,890	937,319	1,112,839
Utah	111,966	138,024	144,036
Vermont	67,681	71,157	75,103
Virginia	345,535	354,330	358,759
Virgin Islands	2,700	2,100	2,100
Washington	331,845	337,903	354,947
West Virginia	134,183	138,230	142,694
Wisconsin	614,061	626,261	655,752
Wyoming	12,594	16,246	18,190
Subtotal	22,604,901	25,176,348	27,197,128
State Survey and Cert.	37,496	44,811	48,601
Fraud Control Units	27,972	42,931	44,153
Accounting Adjustments	7,018	0	0
Total State Estimates	22,677,387	25,264,090	27,289,882
Less Adjustments:			
Current Law	---	-578,438	-1,409,523
Proposed Law	---	---	-1,172,237
Total Grants	22,677,387	24,685,652 2/	24,708,122

1/ Combined total of grants for medical assistance payments and State and local administration.

2/ Includes current appropriation of $23,898,000, $542,484 shortfall authority, and $245,168 carryover authority.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

HEALTH CARE FINANCING ADMINISTRATION

Payments to Health Care Trust Funds

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HEALTH CARE FINANCING ADMINISTRATION

Payments to Health Care Trust Fund

Appropriation Language

For payment to the Federal Hospital Insurance and the Federal Supplementary Medical Insurance Trust Funds, as provided under Sections 217(g), 229(b) and 1844 of the Social Security Act, Sections 103(c) and 111(d) of the Social Security Amendments of 1965, and Section 278(d) of the Public Law 97-248, [$18,854,000,000] $20,357,000,000.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

HEALTH CARE FINANCING ADMINISTRATION

Payments to Health Care Trust Funds

Amounts Available for Obligation

	1985	1986	1987
Appropriation	$18,750,000,000	$18,854,000,000	$20,357,000,000
Total Obligations	$18,750,000,000	$18,704,000,000	$20,357,000,000

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PAYMENTS TO HEALTH CARE TRUST FUNDS

Summary of Changes

1986 Budget authority	$ 18,854,000,000
1987 Estimated budget authority	20,357,000,000
Net change	+1,503,000,000

Changes:	1986 Base	Change from Base	
Built-In:			
1. Military service credits	$ 91,000,000	$ +3,000,000	
2. Federal payment for Supplementary Medical Insurance	18,197,000,000	+1,619,000,000	1/
3. Hospital insurance for the uninsured	554,000,000	-119,000,000	1/
4. Hospital insurance for uninsured federal annuitants	12,000,000	-0-	
Net change		1,503,000,000	

1/ These numbers include the change (1987 over 1986) in adjustments related to prior years' costs as decribed below:

Type of Adjustment:	
Federal Payments for Supplementary Medical Insurance	
Adjustment for prior years	$ -45,000,000
Hospital Insurance for the Uninsured	
Adjustment for prior years	-105,000,000
Total adjustments	-150,000,000

PAYMENTS TO HEALTH CARE TRUST FUNDS

Budget Authority by Activity

	1985 Actual	1986 Appropriation	1987 Estimate
Military service credits	$ 86,000,000	$ 91,000,000	$ 94,000,000
Supplementary medical insurance	17,898,000,000	18,197,000,000	19,816,000,000
Hospital insurance for the Uninsured	762,000,000	554,000,000	435,000,000
Hospital insurance for uninsured federal annuitants	4,000,000	12,000,000	12,000,000
Total budget authority	18,750,000,000	18,854,000,000	20,357,000,000

PAYMENTS TO HEALTH CARE TRUST FUNDS

Budget Authority by Object

	1985	1986	1987
Grants, subsidies, and contributions	$17,898,000,000	$18,197,000,000	$19,816,000,000
Insurance claims and indemnities	852,000,000	657,000,000	541,000,000
Total budget authority	$18,750,000,000	$18,854,000,000	$20,357,000,000

AUTHORIZING LEGISLATION

	1986 Amount Authorized	1986 Current Estimate	1987 Amount Authorized	1987 Budget Request
Payments to Health Care Trust Funds (Sections 217(g) 229(b) and 1844 of the Social Security Act, Sections 103(c) and 111(d) of the Social Security Amendments of 1965, and Section 278(d) of Public Law 97-248)	Indefinite	$18,854,000,000	Indefinite	$20,357,000,000
Total Budget Authority		$18,854,000,000		$20,357,000,000
Total BA Against Definite Authorization		-0-		-0-

PAYMENTS TO HEALTH CARE TRUST FUNDS

Table of Estimates and Appropriations

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1977	$ 6,013,000,000	$ 6,013,000,000	$ 6,013,000,000	$ 6,013,000,000
1978	7,242,941,000	7,242,941,000	7,242,941,000	7,242,941,000
1979	7,763,913,000	7,756,913,000	7,762,913,000	7,760,913,000
1980	7,969,906,000	7,966,406,000	7,969,906,000	7,968,156,000
1981	9,589,120,000	9,577,120,000	---	9,577,120,000 1/
1982	14,520,000,000	14,338,000,000	---	14,338,000,000 1/
1983	15,576,000,000	15,576,000,000	---	15,347,000,000
1984	17,291,000,000	17,291,000,000	17,682,000,000	17,853,000,000
985	19,904,000,000	19,807,020,000	19,872,000,000	18,750,000,000
1986	19,659,000,000	19,659,000,000	18,854,000,000	18,854,000,000

1/ The Senate did not pass an appropriation for this account. Appropriation column represents continuing resolution level.

PAYMENTS TO HEALTH CARE TRUST FUNDS

Account Summary

	1985	1986	1987
Payments to Health Care Trust Funds:			
1. Military service credits (HI)	$ 86,000,000	$ 91,000,000	$ 94,000,000
2. Supplementary Medical Insurance	17,898,000,000	18,197,000,000	19,816,000,000
3. Hospital insurance for the uninsured	762,000,000	554,000,000	435,000,000
4. Hospital insurance for uninsured federal annuitants	4,000,000	12,000,000	12,000,000
Total budget authority[1]	18,750,000,000	18,854,000,000	20,357,000,000

GENERAL STATEMENT

This appropriation request covers four Federal payments to the Health Care Trust Funds. Three of the four payments, totaling $541,000,000 are for the Hospital Insurance (HI) Trust Fund. The two payments for the uninsured put the Hospital Insurance Trust Fund in the same financial position it would have been in had it not had to bear the cost of benefits chargeable to Federal funds. The payment for Military Service Credits is an estimate of the payroll taxes that would have been paid on certain non-pay compensation for military personnel if that compensation were taxed. The fourth payment, which totals $19,816,000,000 is for Federal matching of premiums paid by or for individuals enrolled in the voluntary Supplementary Medical Insurance program. In addition to funding current year costs, two of the payments provide for adjustments between amounts previously appropriated and actual program costs.

[1] This total does not include an appropriation for Self-Employment Insurance Contribution (SECA) credits which will be made through this account. The Social Security Amendments provided for the granting of SECA credits to individuals. The tax credits are granted at the time the individual is taxed and are funded by the general funds of the Treasury. Since the amendments provided for a permanent indefinite appropriation for these credits, we are not requesting any funds for these activities in this appropriation request. The appropriated amounts are $419,000,000 for FY 1986 and $422,000,000 for FY 1987.

1. **Military Service Credits**

Authorizing Legislation - Section 217(g) and 229(b) of the Social Security Act.

1985 Estimate Budget Authority	1987 Estimate		Increase or Decrease
	Authorization	Budget Authority	
$ 91,000,000	Indefinite	$ 94,000,000	$ +3,000,000

Purpose and Method of Operations

The 1946 Social Security Amendments provided for payments of benefits to World War II veterans and their survivors based upon noncontributory wage credits of $160 for each month of the veteran's active military service. Subsequent amendments extended the period for which noncontributory wage credits were granted through December 1956. The Servicemen's and Veteran's Survivors Benefit Act of 1956 ended this practice and required contributions based on military service wages beginning January 1957.

Prior to the Social Security Amendments of 1983, reimbursement was provided to the Hospital Insurance Trust Fund from the general fund of the Treasury to finance the additional costs incurred in paying benefits which are based on periods of military service for which no contributions were made. A 50-year period for reimbursement was established, and the Secretary of Health and Human Services was instructed to determine by September 1965 (and each fifth September afterwards, ending September 2010) the amount of reimbursement in equal annual installments necessary to place the trust fund in the same position on September 30, 2015, that it would have been if noncontributory military service credits had not been provided.

The Social Security Amendments of 1983 modified this provision. First, it provided for a lump sum amount to be transferred from general revenues to the Hospital Insurance Trust Fund for the excess of the actuarial present value of past and future benefits over any amounts previously transferred for each benefit. Second, the fund was to be credited with an estimate of the combined employer-employee Hospital Insurance taxes on noncontributory wage credits for service between 1965 and 1983. The Amendments provided for an adjustment to the initial estimate in 1985 and every five years thereafter. On May 20, 1983, $3,456,000,000 was transferred from Treasury into the Hospital Insurance Trust Fund for those purposes. After 1983, annual appropriations are authroized for the current HI taxes on noncontributory wage credits.

Rationale for the Budget Request

The amount requested for this appropriation is $94,000,000. This is an increase of $3,000,000 and reflects the required 1986 adjustment which will occur too late to take place in FY 1986.

2. Federal Payment for Supplmentary Medical Insurance

Authority Legislation - Section 1844 of the Social Security Act.

1986 Estimate	1987 Estimate		Increase
Total Obligation	Authorization	Budget Authority	or Decrease
$18,047,000,000	Indefinite	$19,816,000,000	$+1,769,000,000

Purpose and Method of Operations

The Social Security Act provides a voluntary Supplementary Medical Insurance (SMI) plan for which almost all persons age 65 and over are eligible. Two groups of individuals under age 65 can also become entitled to Medicare services. First, disabled individuals who have been entitled to Social Security or Railroad Retirement benefits for at least 24 months can enroll. Second, individuals who begin treatment for chronic renal disease can become enrollees, either immediately after beginning treatment or after a three-month waiting period, depending on treatment modality.

Medical insurance benefits and administrative expenses are financed by monthly premiums paid by enrollees and by a matching Federal contribution. Prior to the Social Security Amendments of 1983 the premium and the Federal contribution were promulgated each December by the Secretary of Health and Human Services for the 12-month period beginning the following July 1. As a result of the Amendments, the premium will be promulgated in September for the 12-month period beginning January 1. These rates are based on an actuarial determination of the amount required both to finance the incurred costs of the program for that year and to maintain the trust fund balance at an adequate level.

At the beginning of the SMI program, the premium was set so as to finance 50 percent of estimated incurred costs. With the benefit years beginning July 1973, however, the Congress mandated that the premium be equal to the lesser of either half of the estimated average monthly incurred costs for aged enrollees or the previous year's premium, increased by a percentage equal to the previous year's Social Security cash benefit cost of living (COLA) adjustment. Since the rate of increase in SMI benefits has exceeded the COLA adjustment during the period from FY 1973 to FY 1982, the percentage of incurred costs financed through enrollee premiums declined to less than 25 percent.

In order to prevent the further erosion of the premium's contribution to SMI financing, Section 124 of P.L. 97-248 mandated that for benefit years beginning July 1, 1983, and July 1, 1984, the premium be established to cover 25 percent of the estimated aged incurred costs. However, as a result of the six-month premium freeze mandated by the Social Security Amendments of 1983, the premium is now on a calendar year basis, and therefore, the premiums for 1984 and 1985 will be established to cover 25 percent of estimated aged incurred costs. In P.L. 98-369, the Deficit Reduction Act of 1984, this 25 percent proportion covered by the premiums is extended through 1987. On January 1, 1985, the premium rose to $15.50 per month, an increase of $0.90 over the previous premium of $14.60. The premium for 1986 will remain at the 1985 level of $15.50 per month as a result of the actuarial premium promulgation. The contingency margin of error used to determine the premium level was in excess of need thereby allowing the premium to remain constant.

Rationale for the Budget Request

The request for FY 1987 is $19,816,000,000, an increase of $1,619,000,000 over FY 1986. The increase is composed of adjustments related to FY 1986 and estimated increases for the Federal Contribution in FY 1987. The basis for the budget request is as follows:

Adjustment for FY 1986

The FY 1986 appropriation was based on the Administration's revised request for the fiscal year. This revised request reflected the impact of lowered utilization projections for FY 1986 and extension of the physician fee freeze in the Deficit Reduction Act of 1984. At the time this estimate was prepared, the adequate actuarial rate for calendar year 1986 had not yet been finalized. In October, the actuarial rate was finalized. This adjustment will increase the Federal payment to a level consistent with the promulgated adequate rates.

The adjustment for FY 1986 consists of:

- program change - The FY 1986 request was calculated at a time when FY 1986 accrued expenditures were estimated to be slightly higher than the current estimate.
- contingency margin - As a result both of current FY 1986 benefit estimates running behind the initial estimate and of the physician fee freeze mandated by the Deficit Reduction Act of 1984, the contingency margin has been reducerd in order to eliminate any surplus .
- population change - The actual number of enrollees is higher than the original estimate.
- interest - This is the interest related to the above adjustments. Changes in the program and the contingency margin constitutes an increase in the interest gained for FY 1986.

Adjustment for FY 1987

Last October the adequate actuarial rate for 1986 was published. Thus, one quarter of the fiscal year's financing is fixed. The adequate rate for calendar 1987 is estimated and will not be promulgated until next September.

The FY 1987 increase consists of:

- program change - Between FY 1986 and FY 1987, program expenditures are expected to increase by 11.7 percent and 11.0 percent for aged and disabled enrollees, respectively.
- contingency margin - The promulated 1986 adequate rate and the estimated 1987 adequate rate contain a deliberate decrease in the contingency margin to bring it to an optimal level.
- population change - Between FY 1986 and FY 1987, the enrollee population is expected to increase by 648,000 for aged and 21,000 for the disabled.
- interest offset - As the Part B program grows, the size of the trust fund balance grows proportionately. The decision to reduce the contingency margin creates a smaller base of investments generating less income due to interest. -

Summary of Changes From Previous Estimate for Supplementary Medical Insurance

	Aged		
	(Previous) Estimate	(Current) Estimate	Change
FY 1986			
Average monthly cost per enrollee	$ 62.80	$ 62.00	$ -.80
Average premium	15.70	15.50	-.20
Average federal payment/enrollee	$ 47.10	$ 46.50	$ -.60
FY 1987			
Average monthly cost per enrollee	$ 69.20	$ 71.00	$ 1.80
Average premium	17.30	17.80	-.50
Average federal payment/enrollee	$ 51.90	$ 53.20	$ -1.30
Enrollees			
FY 1986	27,865	27,865	0
FY 1987	28,513	28,513	0

	Disabled		
	(Previous) Estimate	(Current) Estimate	Change
FY 1986			
Average monthly cost per enrollee	$ 86.40	$ 81.60	$ -4.80
Average premium	15.50	15.50	0
Average federal payment/enrollee	$ 70.90	$ 66.10	$ -4.80
FY 1987			
Average monthly cost per enrollee	$ 89.60	$ 84.80	$ -4.80
Average premium	17.30	17.80	-.50
Average federal payment/enrollee	$ 72.30	$ 67.00	$ -4.30
Enrollees			
FY 1986	2,697	2,701	+4
FY 1987	2,685	2,722	+37

3. Hospital Insurance for the Uninsured

Authorizing Legislation - Sections 103(c) and 111(d) of the Social Security Amendments of 1965.

1986 Estimate Budget Authority	1987 Estimate Authority	1987 Estimate Budget Authority	Increase or Decrease
$ 554,000,000	Indefinite	$ 435,000,000	$ -119,000,000

Purpose and Method of Operations

The Social Security Act provides hospital insurance for most individuals age 65 and over, which pays for the costs of hospital and related post-hospital services, subject to certain deductibles and coinsurance requirements. Coverage extends to all persons age 65 and over entitled to Social Security or Railroad Retirement benefits. When Medicare was first implemented, the Congress further provided hospital insurance coverage to people who were already age 65 and over who were not insured under the Social Security or Railroad Retirement programs. The Congress took this action because most of these people had an insufficient opportunity to obtain program coverage. While the hospital insurance benefits and administrative costs for persons on the Social Security or Railroad Retirement rolls are financed from a separate payroll tax on employees, employers, and self-employed persons, the costs of providing benefits to aged uninsured individuals are financed through an appropriation from general revenues.

For uninsured persons who attained age 65 before 1968, no wage credit under Social Security is required for this federally funded coverage. For men who attained age 65 after 1967 and before 1975 (before 1974 for women), wage credits on a sliding scale are required for federally funded entitlement. For men who attained 65 after 1974 (after 1973 for women), the requirements for entitlement to hospital insurance benefits are identical to the requirements for Social Security or Railroad Retirement benefits. Thus, a gradually decreasing number of uninsured persons are eligible for hospital insurance benefits financed from general revenues. Uninsured aged individuals who cannot meet these wage credit requirements still can obtain hospital insurance protection, but must pay monthly premiums covering the approximate cost of their coverage. The monthly rate was $214 for the year beginning January 1, 1986. Effective January 1, 1987, the rate will increase to $248.

Rationale for the Budget Request - The estimate of $435,000,000 is comprised of:

1.	FY 1987 Requirements	$	540,000,000
2.	Adjustments —		
	FY 1986 Benefit and Interest Costs		-52,332,000
	FY 1985 Benefit and Interest Costs		-47,113,000
	FY 1984 Benefit and Interest Costs		-9,686,000
	FY 1982 Benefit and Interest Costs		+4,131,000
	Total Adjustments	$	-105,000,000
	Total FY 1987 Request	$	435,000,000

FY 1987 Requirements

The estimate of $540,000,000 is comprised of:

1.	Benefit Payments	$	532,000,000
2.	Administrative costs		8,000,000
	Total	$	540,000,000

Benefit Payments

Benefit payments for FY 1987 are expected to total $532,000,000 which is a decrease of $92,000,000 from FY 1986. This is the third year that the request for this activity has decreased. This decrease occurs because the higher cost and utilization of covered services by the uninsured group is more than offset by the decline in the number of uninsured individuals. During FY 1987, there will be an average of 276,000 uninsured beneficiaries compared to 322,000 in FY 1986.

Administrative Costs

Administrative costs for the hospital insurance program for the uninsured groups are included in HCFA's and SSA's justifications for their administrative expenses requests. The agencies allocate administrative costs for the uninsured group based on the ratio of benefit payments for the uninsured to total hospital insurance benefit payments for the aged. Estimated administrative costs in FY 1987 remain unchanged from the FY 1986 level of $8,000,000.

4. **Hospital Insurance for Uninsured Federal Annuitants**

Authorizing Legislation - Section 278(d) of Public Law 97-248

1986 Estimate	1987 Estimate		Increase or
Budget Authority	Authority	Budget Authority	Decrease
$ 12,000,000	Indefinite	$ 12,000,000	0

Purpose and Method of Operation

The tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248), extended Medicare coverage to Federal employees. Federal wages earned after December 31, 1982, will be counted toward quarters of coverage needed to establish Medicare eligibility. Persons who had been employed by the Federal government prior to 1983, who were also employed during January 1983, can receive credit toward eligibility for noncontributory quarters worked in the Federal government.

P.L. 97-248 authorized an appropriation to the Hospital Insurance Trust Fund to cover the costs of: benefits to these indviduals; associated administrative costs; and an interest payment that would put the trust fund in the same position at the end of the fiscal year as it would have been if transitional coverage had not been created.

Rationale for the Budget Request

The amount requested for this activity is $12,000,000, the same as FY 1987. Since administrative expenses are nominal, they have been included in projected benefit costs of $12,000,000.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

HEALTH CARE FINANCING ADMINISTRATION

Program Management

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HEALTH CARE FINANCING ADMINISTRATION

Program Management

Appropriation Language

For carrying out, except as otherwise provided, titles XI, XVIII, and XIX of the Social Security Act, [$89,533,000] *$84,533,000* together with not to exceed [$1,176,785,000] *$1,163,944,000* to be transferred to this appropriation as authorized by section 201(g) of the Social Security Act, from the Federal Hospital Insurance and the Federal Supplementary Medical Insurance Trust Funds referred to therein: **Provided**, That in addition, [$15,000,000] *$50,000,000* shall similarly[1] be derived by transfer from said trust funds and shall be expended only to the extent necessary to process workloads not anticipated in the budget estimates and to meet unanticipated costs of agencies or organizations with which agreements have been made to participate in the administration of title XVIII and after maximum absorption of such costs within the remainder of the existing limitation has been achieved: Provided further, That no funds shall be available for obligation under section 1842(g) of the Social Security Act:[2] *Provided further, That no funds shall be available for obligation to a fiscal intermediary under section 1816 of the Social Security Act unless that fiscal intermediary has been selected by the Secretary of Health and Human Services without regard to any nomination procedure:*[3] *Provided further, That funds shall be available for agreements or contracts with fiscal intermediaries or carriers under sections 1816(c) and 1842(c) of the Social Security Act on a basis other than the cost of such agreements or contracts.*[4] *(Department of Health and Human Services Appropriations Act, 1986; Legislative action required.)*

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[1] This provision authorizes a $50 million contingency fund in addition to the amounts in the basic appropriation.

[2] This provision prohibits obligation of funds for a separate Railroad Retirement Board contractor.

[3] This provision eliminates the provider nomination process and would allow providers to be assigned to intermediaries without regard to their preferences.

[4] This provision eliminates the provision that stipulates cost contracts for this program.

Language Analysis

Language Provision	Explanation
... together with not to exceed $1,163,944,000 to be transferred to this appropriation as authorized by section 201(g) of the Social Security Act, from the Federal Hospital Insurance and the Federal Supplementary Medical Insurance Trust Funds referred to therein...	Authorizing legislation provides for payment of administrative costs related to Title XVIII programs. This provision permits the transfer of such trust fund monies to this account to provide allocation of costs between trust funds and general funds.
Provided, That in addition $50,000,000 shall similarly be derived by transfer from said trust funds and shall be expended only to the extent necessary to process workloads not anticipated in the budget estimates or to meet unanticipated costs of agencies or organizations with which agreements have been made to participate in the administration of Title XVIII and after maximum absorption of such costs within the remainder of the existing limitation has been achieved.	This provision provides the authority to transfer additional amounts from the trust funds for contractor costs associated with workload that was not anticipated in the budget. These transfers may not exceed $50,000,000.
Provided further, That no funds shall be available for obligations under Section 1842(g) of the Social Security Act.	Section 1842(g) of the Social Security Act requires the Railroad Retirement Board (RRB) to contract with a carrier or carriers to process claims for RRB beneficiaries. This provision would prohibit obligation of funds for a separate RRB contractor. Claims would be processed by the regular Medicare contractors.

Language Analysis

Language Provision	Explanation
Provider further, That no funds shall be available for obligation to a fiscal intermediary under section 1816 of the Social Security Act unless that fiscal intermediary has been selected by the Secretary of Health and Human Services without regard to any nomination procedure.	Currently, providers may nominate the intermediary that would pay their claims. This provision would eliminate the provider nomination process.
Provider further, That funds shall be available for agreements or contracts with fiscal intermediaries or carriers under sections 1816(c) and 1842(c) of the Social Security Act on a basis other than the cost of such agreements or contracts.	This provision would provide the authority to use contracting procedures other than the current cost reimbursement contracting.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
HEALTH CARE FINANCING ADMINISTRATION

PROGRAM MANAGEMENT

Amounts Available for Obligation

	1985	1986	1987
Appropriation	$ 98,147,000	$ 89,533,000	$ 84,533,000
Sequestor order		-3,850,000[1]	
Proposed rescission		-912,000[2]	
Subtotal, adjusted appropriation	98,147,000	84,771,000	84,533,000
Subtotal, adjusted budget authority	98,147,000	84,771,000	84,533,000
Receipts and reimbursements from trust funds	1,128,949,000	1,176,785,000	1,163,944,000[5]
Adjusted receipts and reimbursements from trust funds			
Sequestor order		-50,583,000[1]	
Proposed rescission		-8,489,000[2]	
Section 515 withholding	-639,000	-366,000[3]	
Unobligated balance, start of year	9,333,000		
Unobligated balance end of year			
Unobligated balance lapsing	-10,626,000		
Section 515 Lapse	-793,000	-213,000[3]	
Total obligations	1,224,371,000	1,201,905,000[4]	1,248,477,000[5] [6]

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[1] Reflects reductions totalling $54,433,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985.

[2] Reflects proposed rescissions totalling $9,401,000.

[3] Reflects withholding totalling $579,000 pursuant to the conference version of the Treasury, Postal Service, and General Government Appropriations Act of 1986, included by reference in the full-year Continuing Resolution for 1986, P.L. 99-190.

[4] Excludes the contingency fund of $15,000,000 which has been reduced by $645,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

[5] Reflects the effect of enacting legislative proposals which result in savings of $4,800,000. The proposals are included in proposed FY1987 appropriation language.

[6] Excludes a contingency fund of $50,000,000 proposed in the appropriation language.

PROGRAM MANAGEMENT

Summary of Changes

1986 Appropriation	$ 1,265,739,000
1986 Sequester order	-54,433,000
1986 Proposed rescission	-9,401,000
1986 Revised estimate	1,201,905,000
1987 Request	1,248,477,000
Net Change	+46,572,000

	1986 Base	Change from Base
Increases:		
Built-In:		
1. Within grade increases	$ 158,458,000	$ +1,504,000
2. One additional day	158,458,000	+582,000
3. Communication, utilities and miscellaneous charges	7,257,000	+603,000
Subtotal		+2,689,000
Program:		
1. Administrative costs		
o Telephone switching system	7,257,000	+3,000,000
o Rental payments to others	605,000	+205,000
o Other services	19,532,000	+305,000
o Supplies and materials	1,023,000	+166,000
o Restoration of funds resulting from the Balance Budget and Emergency Deficit Control Act of 1985		+8,483,000
2. Medicare contractors	920,000,000	+41,600,000
3. State certification	49,461,000	+7,539,000
Subtotal		+61,298,000
Total increases		+63,987,000
Decreases:		
Program:		
1. Administrative costs		
o Reduction of 124 FTE's	158,458,000	-4,954,000
o Rental payments to GSA	10,012,000	-532,000
2. Research	22,000,000	-3,500,000
3. Medicare contractors		
o Appropriations language including Proposed legislation for the Contractor Initiative and Railroad Retirement Board		-4,800,000
4. ESRD	4,629,000	-3,629,000
Subtotal		-17,415,000
Net Change		+46,572,000

PROGRAM MANAGEMENT

Budget Authority by Activity

		1986 Appropriation	1986 Available after Sequestering	1986 Revised	1987
1.	Research, demonstration and evaluation projects	$ 16,000,000	$ 15,312,000	$ 14,400,000	$ 10,000,000
	(Obligations)	(30,650,000)	(29,332,000)	(22,000,000)	(18,500,000)
2.	Medicare contractors	-0-	-0-	-0-	-0-
	(Obligations)	(963,500,000)	(922,069,000)	(920,000,000)	(956,800,000)
3.	State certification	3,250,000	3,110,000	3,110,000	3,525,000
	(Obligations)	(51,684,000)	(49,461,000)	(49,461,000)	(57,000,000)
4.	ESRD networks	-0-	-0-	-0-	-0-
	(Obligations)	(4,837,000)	(4,629,000)	(4,629,000)	(1,000,000)
5.	Administrative costs	70,283,000	67,261,000	67,261,000	71,008,000
	(Obligations)	(215,068,000)	(205,815,000)	(205,815,000)	(215,177,000)
	Rental payments to GSA (non-add) (Obligations)	(10,012,000)	(10,012,000)	(10,012,000)	(9,480,000)
	Total budget authority	89,533,000	85,683,000	84,771,000	84,533,000
	(Obligations)	(1,265,739,000)	(1,211,306,000)	(1,201,905,000)	(1,248,477,000)

NOTES

1. The 1986 appropriation reflects a withholding totalling $350,000 pursuant to the conference version of the Treasury, Postal Services, and General Government Appropriations Act of 1986, included by reference in the full-year Continuing Resolution for 1986, P.L. 99-190. The revised 1986 estimate reflects a reduction of $1,318,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, and a proposed rescission of $7,332,000.

NOTES CONTINUED

2. Revised 1986 estimate reflects a reduction of $41,431,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, reflects a proposed rescission of $2,069,000, and excludes a contingency fund of $15,000,000 in FY 1986 (which has been reduced by $645,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177).

   The FY 1987 budget request includes a $50,000,000 contingency fund and reflects the effect of enacting legislative proposals which result in savings of $4,800,000. The legislative proposals are included in proposed FY 1987 appropriation language.

3. The revised 1986 estimate reflects a reduction of $2,223,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985.

4. The revised 1986 estimate reflects a reduction of $208,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985.

5. The 1986 appropriation reflects a withholding totalling $229,000 pursuant to the conference version of the Treasury, Postal Service, and General Government Appropriations Act of 1986, included by reference in the full-year Continuing Resolution for 1986, P.L. 99-190. The revised 1986 estimate reflects a reduction of $9,253,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985.

PROGRAM MANAGEMENT: Research, Demonstrations and Evaluation Projects

Obligations by Object

	1985	1986	1987
Other services	$ 14,387,000	$ 10,128,000	$ 11,200,000
Grants, subsidies and contributions	20,170,000	11,872,000	7,300,000
Total obligations	34,557,000	22,000,000 [1/]	18,500,000

[1/] Reflects a reduction of $1,318,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177; a proposed rescission of $7,332,000; a reduction of $350,000 pursuant to Section 515 of the conference version of the Treasury, Postal Service, and General Government Appropriations Act of 1986, included by reference in the full-year Continuing Resolution for 1986, P.L. 99-190.

PROGRAM MANAGEMENT:
Medicare Contractors

Obligations by Object

	1985	1986	1987
Printing and reproduction	$ 3,426,000	$ 1,500,000	$ 1,500,000
Other services	914,110,000	918,500,000	955,300,000
Subtotal, obligations	917,536,000	920,000,000 [3]	956,800,000 [5]
Contingency fund	-0- [1]	14,355,000 [4]	50,000,000 [6]
Total resources	917,536,000	934,355,000	1,006,800,000
Physician fee freeze transfer	14,600,000 [2]		
Total	932,136,000	934,355,000	1,006,800,000

[1] A contingency fund of $20,000,000 was obligated and is included in the total obligations of $917,536,000.

[2] Reflects a direct transfer of $14.6 million from the Supplementary Medical Insurance Trust Fund for the implementation of physician fee freeze and participating physicians program. This additional amount was provided by the Deficit Reduction Act of 1984 (P.L. 98-369). These activities are included in "Other Services" in FY 1986.

[3] Reflects a reduction of $41,431,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177; and a proposed rescission $2,069,000.

[4] Reflects a reduction of $645,000 in the contingency fund pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

[5] Reflects the effect of enacting legislative proposals which result in savings of $4,800,000. The proposals are included in proposed FY 1987 appropriation language.

[6] For FY 1987, a $50,000,000 contingency fund is requested in the appropriations language.

PROGRAM MANAGEMENT:
State Certification

Obligations by Object

	1985	1986	1987
Total Obligations (Other services)	$ 48,750,000	$ 49,461,000 [1]	$ 57,000,000

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[1] Reflects a reduction of $2,223,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

PROGRAM MANAGEMENT:
ESRD Network Coordinating Councils

Obligations by Object

	1985	1986	1987
Total Obligations (Grants, subsidies and contributions	$ 4,837,000	$ 4,629,000 [1/]	$ 1,000,000

[1/] Reflects a reduction of $208,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

PROGRAM MANAGEMENT: Adminstrative Costs

Obligations by Object

	1985	1986	1987
Personnel compensation:			
Full-time permanent	$138,673,000	$134,409,000	$131,852,000
Other than full-time permanent	3,675,000	3,675,000	3,675,000
Other personnel compensation	2,040,000	2,077,000	2,106,000
Subtotal, personnel compensation	144,388,000	140,161,000	137,633,000
Personnel benefits	16,512,000	18,297,000	17,958,000
Travel and transportation of persons	5,329,000	3,992,000	5,323,000
Transportation of things	617,000	415,000	460,000
Rents, communications and utilities:			
Rental payments to GSA	10,780,000	10,012,000	9,480,000
Rental payments to others	811,000	605,000	810,000
Communication, utilities and miscellaneous charges	7,120,000	7,257,000	10,865,000
Printing and reproduction	2,159,000	2,100,000	2,800,000
Other services	20,738,000	19,532,000	25,089,000
Supplies and materials	1,396,000	1,023,000	1,530,000
Equipment	8,841,000	2,421,000	3,229,000
Total obligations	218,691,000	205,815,000 1/	215,177,000

1/ Reflects a reduction of $9,253,000 pursuant to the Balanced Budget and Emergency and Deficit Control Act of 1985, P.L. 99-177; a withholding of $229,000 from obligation pursuant to Section 515 of the conference version of the Treasury, Postal Service, and General Government Appropriations Act of 1986, included by reference in the full-year Continuing Resolution for 1986, P.L. 99-190.

PROGRAM MANAGEMENT:

Administrative Costs

Personnel Summary

	1985	1986	1987
Total number of full-time permanent positions	4,308	4,188	4,040
Total number of full-time permanent positions (on-board)	3,896	3,686	3,580
Full-time equivalent of all other positions (on-board)	122	122	122
Total compensable work-years	4,020	3,881	3,757
Average ES salary	64,153	64,795	65,443
Average GS grade	10.83	10.83	10.83
Average GS salary	35,371	35,725	36,082
Average salary of ungraded positions	21,241	21,453	21,668

Significant Items in House and Senate Appropriations Committee Reports

Items	Action Taken or to Be Taken
FY 1986 Senate Report 99-151	
The Committee expects HCFA to conduct a study of the short- and long-term impact of PPS on small rural hospitals and to identify the adjustments that need to be made to the current reimbursement scheme in order for these institutions to remain financially solvent. This study is to be submitted to the Committee by January 1, 1987.	We will be including information on the short-term impact of PPS on rural hospitals in our annual PPS Impact Reports for 1984 through 1987. Determining the long-term impact will require time and data not yet determined. For example, as part of the November 1985 grant/cooperative agreement solicitation for research and demonstration projects, we received an application involving a 3-year study to determine the long-run impact on Texas rural hospitals. This application, along with the other applications received for the November cycle, will be undergoing technical review during the next two months, with award decisions expected in late March 1986. It is unlikely that we can have a report on the long-term impact completed by January 1, 1987 as requested by the Senate Committee on Appropriations.
The Committee expects HCFA to conduct a study on the cost implications of extending Medicare coverage to victims of Alzheimer's disease, with an analysis of alternatives for providing care and treatment to afflicted individuals.	HCFA does not currently have any projects dealing with the "cost implications of extending Medicare coverage to victims of Alzheimer's disease." We included in our January 30, 1985 Federal Register notice of research and demonstration grant/cooperative agreement funding priorities the study of Alzheimer's disease; however, no related application was received for either the FY 1985 (April 15) cycle or the FY 1986 (November 4) cycle. Generally, we have not conducted studies that consider the issue of extending Medicare coverage to disease-specific categories of individuals.

Significant Items in House and Senate Appropriations Committee Reports

Items	Action Taken or to Be Taken
FY 1986 Senate Report 99-151	
The Committee was pleased to learn recently that the Department of Defense has decided to implement external peer review, similar to that currently done for Medicare patients, for beneficiaries of military health programs. The Committee urges HCFA to provide the Department of Defense with any technical assistance that might become necessary to accomplish this objective.	On August 20, 1985, HCFA detailed a medical advisor to work at the Defense Department for one year. This employee is providing technical assistance to the Defense Department staff who are working on the peer review system.
While the Committee expects that the Department will equitably allocate the additional funds over all contractor functions, it believes that first priority should be given to the claims payment functions to reduce claims backlogs and to prevent any further deterioration in the quality and timeliness of claims processing functions. The Committee further expects funds will be obligated for current claims processing operations and not withheld in anticipation of pending legislation. Finally, the Committee expects that FY 1986 funds will be allocated and obligated to the contractors as soon as possible to avoid unnecessary reductions in contractor capacity or further increases in the claims backlog.	Among HCFA's priorities is the accurate and timely processing of Medicare claims. However, additional funds added by the Appropriations Committee to the FY 1986 President's budget for claims processing have been eliminated by the Gramm-Rudman-Hollings reduction. Our proposed funding level reflects a continued emphasis on strengthening payment safeguards, including audit and medical review activities.

Items	Action Taken or to Be Taken
FY 1986 Senate Report 99-151	
The Committee does not concur in HCFA's refusal to reimburse a Medicare provider for the reasonable cost of a nurse training baccalaureate degree program conducted in the provider's facilities, where the refusal is grounded on the fact that the program is operated with the assistance of a local educational institution... The Committee expects HCFA to reinterpret its regulation to ensure, insofar as consistent with the underlying statute, that a provider is not penalized when it seeks the assistance of a local educational institution to improve the quality of services to patients by strengthening an existing provider-operated training program.	The direct medical education costs incurred by a hospital involved in a joint agreement with a college or university for training nurses may be "passed-through" under the Medicare program (reimbursed on a reasonable cost basis) only as long as the hospital is directly involved in operating all aspects of the education program. Regulations at 42 CFR 405.421 as well as pertinent preamble language contained in the January 3, 1984, Federal Register specifically preclude reimbursement of direct medical education costs for "students not enrolled in an approved program operated by the provider." In situations where a hospital is not directly conducting the nurse training baccalaureate degree program, such costs represent operational expenses of the hospital, which are included in the prospective payment rate. We are carefully reviewing our policy as it pertains to nursing education, but have made no revisions at this time.
The Committee is deeply disturbed at the Department's failure to issue the proposed Medicaid revisions to the standards governing the intermediate care facilities for the mentally retarded program, which have been under development now for over 3 years. The Committee concurs with the recent action of the authorizing committee that the Secretary should expedite the release of these proposed regulations.	The regulation which proposes to revise the standards for Intermediate Care Facilities for the mentally retarded was developed after considerable discussion and coordination with outside interest groups. The Notice of Proposed Rulemaking will be published shortly.

Significant Items in House and Senate Appropriations Committee Reports

Items	Action Taken or to Be Taken
FY 1986 Senate Report 99-151	
The Committee expects that, within the funding level provided, HCFA will conduct surveys of at least 10 general hospitals accredited by the Joint Commission on Accreditation of Hospitals to validate the findings of JCAH accreditation surveys.	Federal surveys of JCAH accredited hospitals are primarily based on a hospital's deficiency pattern and/or number of complaints. In FY 1986, HCFA will ensure that Federal surveys are conducted in at least 10 JCAH accredited hospitals to validate the findings of JCAH accreditation surveys. This includes random surveys of facilities in all ten regions.
The Committee has provided $1,675,000 to allow HCFA to conduct Federal Monitoring of the remaining certified psychiatric hospitals (about 220). The Committee directs HCFA to provide, on a bimonthly basis, the results of the monitoring surveys conducted during that period.	HCFA is developing a competitive request for contract for the award of these funds in FY 1986. It is anticipated that the contract will be awarded in July, 1986. Upon contract award, HCFA will provide the Committee a bimonthly report which indicates the number of surveys, the location of the facility and findings of the monitoring surveys that are conducted.
The Committee is concerned that HCFA did not carry out the directive of the conferees in the FY 1985 appropriations bill to hire an additional 57 staff including 12 developmental disability specialists for increased monitoring of intermediate care facilities for the mentally retarded. The Committee understands that only 45 positions were filled from outside the Agency, and 12 surveyors were diverted from other activities to implement the Congressional directive. Therefore, the Committee expects that HCFA, within the FTE level provided in the bill, will hire the 12 additional personnel needed to fully comply with the intent of Congress on this matter.	HCFA staff have met with Committee staff to discuss proposals for monitoring ICF/MF facilities and the Agency's overall employment level. Within the Agency's FTE level, HCFA will hire an additional 12 surveyors.

Items	Action Taken or to Be Taken
FY 1986 House Report 99-289	
The Committee urges HCFA to reconsider its decision to terminate the operational phase of the Aid to Families with Dependent Children (AFDC) Homemaker/Home Health Aide Demonstration projects after three years and fund the projects for the maximum four years operational period authorized by Congress.	The demonstration sites had 3 years of operational experience at the end of December 1985. This timeframe permitted the collection of sufficient data for a reliable evaluation of the impact. Because we are confident that the research/demonstration objectives of this study will be realized within the timeframe originally established, we believe that an extension of the demonstration beyond December 1985 is unnecessary. We have already advised the seven States of our decision on this issue.
The Committee believes it essential that HCFA carefully monitor the implementation of the prospective payment system. In particular, the Committee believes that studies are needed in the area of quality-of-care and access-to-care for Medicare beneficiaries. The $6 million increase recommended by the Congress will provide the resources necessary to conduct these analyses.	We share the Committee's concern for ensuring that Medicare beneficiaries continue to have access to quality health care. We have already initiated a number of projects designed to assess and monitor the impact of PPS on beneficiaries' access to care and the quality of care received under the system, including the impact on the delivery system itself (changes in severity of illness, changes in sub-acute care facilities' admission patterns, etc.). Preliminary findings from our studies indicate that the system has been implemented smoothly, with no systematic evidence thus far of declines due to PPS in access to health care or in the quality of that care. However, we agree that we need to continue our efforts in monitoring the impact of PPS.

Significant Items in House and Senate Appropriations Committee Reports

Items	Action Taken or to Be Taken
FY 1986 House Report 99-289	
The Committee has for the last three years expressed its concern regarding the adequacy of the facilities currently occupied by HCFA. There is widespread agreement that staff should be consolidated to facilitate better management of the Medicare and Medicaid program. The Committee directs that the Department submit a report concurrent with its submission of the 1987 budget on the extent of the problem and on alternatives which might be pursued by the Congress. Alternatives to be discussed should include, as a minimum, building of a new facility, lease or purchase of an existing facility not currently occupied by the government or relocation to existing Federal space. The report should include detailed FY 1987 and life-cycle cost estimates for each alternative.	A document entitled "Report on the Baltimore, Maryland Facilities of the Health Care Financing Administration" is under development. The report enumerates the current facilities which house HCFA's headquarters in the Baltimore metropolitan area, reviews the disadvantages associated with them, examines possible alternatives, addresses the availability of alternate facilities, estimates the FY 1987 and 30-year life cycle costs of various alternatives, and recommends the alternative most advantageous to the Federal Government. The preliminary finding of the report is that maintaining the status quo is the most cost beneficial of all the options.
The Committee has not approved bill language requested in the President's budget which would have eliminated the right of the Railroad Retirement Board (RRB) to choose its own claims processing contractor under the Medicare Program. The Committee will expect to review this matter when it takes up the 1987 budget. Should an administrative solution not be possible, the Committee will reconsider the need for legislative action.	The FY 1987 estimate reflects appropriation language to eliminate special treatment for the RRB which will allow us to build upon FY 1986 efforts to bring down RRB claims processing costs.

Significant Items in House and Senate Appropriations Committee Reports

Items	Action Taken or to Be Taken
FY 1986 Conference Report 99-402	
The conference agreement includes $978,500,000 for Medicare contractors. The conferees direct that within the amount provided, adequate resources be allocated to basic claims processing activities to ensure that the backlog of unprocessed claims be reduced to the maximum extent possible, and that under no circumstances should it be allowed to increase. Further, the conferees direct that services to beneficiaries not be allowed to deteriorate.	HCFA had allocated $521,700,000 to claims payment and $97,000,000 to beneficiary services. However, funds appropriated by the Congress have been reduced by Gramm-Rudman-Hollings to approximately the level of the original President's budget. Within current funding constraints every reasonable effort will be made to maintain the high level of beneficiary services.
The conferees are concerned that HCFA has issued regulations requiring providers who accept assignment to purchase form HCFA-1500. The conferees direct HCFA to review this decision due to its potential effect on the participation of providers in accepting assignment and on the potential for increased out-of-pocket expenditures by beneficiaries. In considering this policy, the conferees encourage the agency to consider the savings represented by physicians accepting assignment and the historical provision of forms without charge since the inception of the Medicare program.	In the beginning of the Medicare program, forms developed by Medicare were used exclusively for Medicare. In recent years, the trend has changed in that HCFA forms are being used to bill payers other than Medicare. We believe that the costs of the forms should be shared among those payers who use the form. Consequently, HCFA promulgated regulations which provided a more equitable solution to the forms question by requiring commercial purchase of the HCFA-1500.

Significant Items Pending from FY 1985 in House and Senate Appropriations Committee Reports

Items	Action Taken or to Be Taken
FY 1985 Senate Report 98-911	
Clinical Trials - The Committee is concerned by reports the new prospective payment system mandated by the Social Security Amendments may have an unintended and harmful effect on clinical trials because of the extra expenses for patient care which are mandated by a research protocol. The Committee expects a preliminary report on this study prior to submission of the FY 1986 budget.	This is a joint HCFA-PHS project, and is likely to last several years. The first deliverable is to be a report from the National Center for Health Services Research and Health Care Technology Assessment and the National Cancer Institute on the cost differences between clinical trial cancer cases and other cancer cases.
Blood Banks - The Committee also requests that a portion of the FY 1985 budget (for HCFA) be used to initiate a study of the impact of the new prospective payment system on the demand for blood products, capital acquisition by blood centers and training of personnel in the blood banking system. The Committee is hopeful that this study will also provide a better understanding of the impact of the new system on other elements of the health industry.	A contractor's study probing this issue is expected to be completed in the near future. It is expected to define the issues to be examined in developing a nationwide study of PPS impact on the structure of the blood-banking industry. We plan to draft a report to Congress by April 1986 (i.e., 90 days after completion of the contractor's work).

AUTHORIZING LEGISLATION

	1986 Amount Authorized	1986 Current Estimate	1987 Amount Authorized	1987 Budget Request
Program Management				
1. Research, Demonstrations, and Evaluation Projects	-0-	$22,000,000[2]		$18,500,000
a. (Social Security Act, Title XI:				
Section 1110	Indefinite	-0-	Indefinite	-0-
Section 1115)[1]	$1,200,000	-0-	$ 500,000	-0-
b. (P.L. 92-603, Section 222)	Indefinite	-0-	Indefinite	-0-
2. Medicare Contractors (Social Security Act, Sections 1816 and 1842)	Indefinite	-0-	Indefinite	-0-
3. State Certification (Social Security Act, Title XVIII, Section 1864; Reorganization Act of 1954)	Indefinite	$3,110,000[2]	Indefinite	$ 3,525,000
4. ESRD Networks (Social Security Act, Title XVIII, Sec. 1881)	Indefinite	-0-	Indefinite	-0-
5. Administrative Costs, (Reorganization Act of 1954)	Indefinite	$67,261,000[2]		Indefinite
Total Budget Authority		$84,771,000[2]		$84,533,000
Total Budget Authority Against Definite Authority	$1,200,000	-0-	$ 500,000	

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[1] The total authorization for Section 1115 is $4,000,000. HCFA's portion is $1,200,000.

[2] Reflects a reduction of $1,318,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177; a proposed rescission of $7,332,000; a reduction of $350,000 pursuant to Section 515 of the conference version of the Treasury, Postal Service, and General Government Appropriations Act of 1986, included by reference in the full-year Continuing Resolution for 1986, P.L. 99-190.

PROGRAM MANAGEMENT

Table of Estimates and Appropriations

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1977	$ 73,442,000	$ 73,442,000	$ 72,442,000	$ 72,442,000
Trust Fund Transfer	658,202,000	658,202,000	659,202,000	659,202,000
1978	92,522,000	92,522,000	92,522,000	92,522,000
Trust Fund Transfer	710,181,000	710,181,000	710,181,000	710,181,000
1979	117,435,000	103,978,000	108,978,000	109,212,000
Trust Fund Transfer	820,289,000	810,359,000	810,359,000	810,359,000
1980	134,684,000	123,510,000	136,510,000	128,010,000
Trust Fund Transfer	840,399,000	838,319,000	842,319,000	847,111,000
1981	132,998,000	123,872,000	-0-	123,872,000
Trust Fund Transfer	899,224,000	885,140,000	-0-	885,140,000
Rescission	-6,992,000	-3,996,000	-8,694,000	-7,894,000
Trust Fund Transfer	-15,643,000	-12,322,000	-20,349,000	-16,982,000
1982	107,704,000	89,535,000	-0-	78,035,000
Trust Fund Transfer	861,007,000	884,909,000	-0-	872,000,000
1983	89,405,000	92,905,000	-0-	94,559,000
Trust Fund Transfer	855,571,000	924,671,000	-0-	1,007,871,000
1984	83,038,000	84,600,000	96,658,000	90,200,000
Trust Fund Transfer	1,027,091,000	1,057,246,000	1,070,022,000	1,070,737,000
Supplemental	4,000,000			
1985	96,247,000	96,247,000	96,781,000	98,147,000
Trust Fund Transfer	1,129,488,000 1/	1,129,488,000	1,129,779,000	1,130,708,000
1986	82,398,000	88,185,000	95,533,000	89,533,000 2/
Trust Fund Transfer	1,113,961,000	1,183,108,000	1,197,885,000	1,176,785,000 3/
Sequester	-54,433,000			
Proposed Rescission	-9,401,000			
1987	84,533,000			
Trust Fund Transfer	1,128,477,000			

1/ Includes $45,000,000 made available by Section 118 of P.L. 97-248.

2/ $579,000 of this amount will be withheld from obligation under Section 515 of the conference version of the Treasury, Postal Service and General Government Appropriation Act of 1986, included by reference in the full-year Continuing Resolution for 1986, P.L. 99-190.

3/ $1,432,000 of this amount will be withheld from obligation under Section 515 of the conference version of the Treasury, Postal Service and General Government Appropriation Act of 1986, included by reference in the full-year Continuing Resolution for 1986, P.L. 99-190.

JUSTIFICATION

PROGRAM MANAGEMENT

Account Summary

	1985	1986	1987
1. Research, demonstrations and evaluation projects	$ 22,971,000	$ 14,400,000	$ 10,000,000
(Obligations)	(34,557,000)	(22,000,000)	(18,500,000)
2. Medicare contractors	-0-	-0-	-0-
(Obligations)	(917,536,000)	(920,000,000) 1/	(956,800,000) 3/
3. State certification	2,175,000	3,110,000	3,525,000
(Obligations)	(48,750,000)	(49,461,000)	(57,000,000)
4. ESRD networks	-0-	-0-	-0-
(Obligations)	(4,837,000)	(4,629,000)	(1,000,000)
5. Administrative costs	71,426,000	67,261,000	71,008,000
(Obligations)	(218,691,000)	(205,815,000)	(215,177,000)
Total budget authority	98,147,000	84,771,000	84,533,000
(Obligations)	(1,224,371,000)	(1,201,905,000) 2/	(1,248,477,000)

1/ Excludes the contingency fund of $15,000,000 which has been reduced by $645,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

2/ Reflects reduction totalling $54,433,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985; reflects proposed rescission totalling $9,401,000; and reflects withholding totalling $579,000 pursuant to the conference version of the Treasury, Postal Service, and General Government Appropriations Act of 1986, included by reference in the full-year Continuing Resolution for 1986, P.L. 99-190.

3/ Reflects the effect of enacting legislative proposals which result in savings of $4,800,000. The proposals are included in proposed FY1987 appropriations language. Also, excludes a $50,000,000 contingency fund requested in the appropriations language.

GENERAL STATEMENT

The Program Management account finances the costs associated with carrying out the responsibilities of the Health Care Financing Administration (HCFA). The account consists of five major activities:

-- **Research, Demonstrations and Evaluation Projects** - This activity provides for research, demonstrations, and evaluation projects designed to improve the organization, delivery, quality, and financing of health care services.

-- **Medicare Contractors** - This activity supports Medicare payment safeguards, claims processing, and productivity investments financed through cost-reimbursed and experimental fixed-price contracts with intermediaries and carriers.

-- **State Certification** - This activity supports contracts with State agencies for the survey and certification of Medicare providers (Medicaid survey costs are reflected in the request for Grants to States for Medicaid).

-- **ESRD Networks** - End Stage Renal Disease Network Coordinating Councils collect information on utilization and monitor kidney dialysis and transplant services.

-- **Administrative Costs** - This activity supports the agency staff and operating expenses related to the administration of the HCFA's programs.

The FY 1987 appropriations request for this account has been reduced by $4.8 million to reflect the following initiatives:

-- elimination of the requirement for the Railroad Retirement Board (RRB) to contract with a separate carrier to process claims for RRB beneficiaries (-$2.0 million); and

-- use of contracting procedures other than the current cost reimbursement contracting (-$2.8 million).

HCFA came into existence in 1977. Its creation brought the Medicare and Medicaid programs together in one agency. Because the cost and demand for federally funded health care services is threatening to outstrip available resources, HCFA has concentrated recent efforts toward achieving effective constraints on the increase in health care costs.

The overall policy represented by this budget request is a continuation of efforts to:

-- promote competition in the health care market place;

-- minimize unnecessary Federal intrusion by reducing regulatory and administrative burdens;

- enhance the role of State and local governments;

-- offer Medicare and Medicaid program participants greater incentives to use resources effectively and efficiently.

PROGRAM ACCOMPLISHMENTS

HCFA's recent efforts have focused on containing the rise in health care costs while assuring quality care for beneficiaries. This goal has been pursued through development and implementation of new reimbursement methodologies, encouragement of less costly and less restrictive methods of service delivery, program management improvements, and increased monitoring of the quality of the services delivered under the Medicare and Medicaid programs.

Examples of some accomplishments in this area are provided below:

- HCFA has developed a new methodology for surveying nursing homes, known as the Patient Care Services Survey (PaCs), which will improve the quality assurance aspects of the survey process by focusing on the patient care and services actually delivered rather than on a facility's capability to provide care and services.

- In FY 1985, HCFA increased its monitoring of Intermediate Care Facilities for the Mentally Retarded (ICFs/MR). Federal inspectors conducted 464 surveys of ICFs/MR in FY 1985. In FY 1986, 725 Federal surveys of ICFs/MR have been scheduled.

- HCFA has developed a strategy to expand the survey process for home health agencies to include home visits. The use of home visits will ensure that Home Health Agencies (HHAs) are delivering quality care to Medicare beneficiaries.

- An important focus of HCFA's research effort is the impact of the Prospective Payment System (PPS). For example, the Agency has been conducting congressionally mandated studies on a number of PPS issues, e.g., refinement of severity of illness and case-mix measures, enhancement of data for PPS recalibration, and the impact of PPS on the blood-banking industry and rural hospitals. Emphasis is also being placed on quality-of-care and access-to-care issues. Short-term quality-of-care research currently underway addresses outcomes of hospital care (before and after implementation of PPS) and potential PPS-induced changes in hospital practices. Long-term quality-of-care research is focused upon clinical analyses of the impact of PPS on inpatient medical care, nonintrusive outcome measures, and the impact of PPS on ESRD Medicare beneficiaries.

- HCFA is also conducting research on aspects of various capitated payment systems and enhancements to existing Medicare and Medicaid data bases.

- In FY 1985, the payment safeguard activities of the Medicare contractors saved the trust funds over $2.4 billion. This amount represents estimated savings achieved in the following areas:

	($ in millions)
Payment Safeguards	FY 1985 Savings
Audits	$ 1,040.2
Medical Review/Utilization Review	625.9
Medicare Secondary Payer Initiative	750.0
TOTAL, Payment Safeguards	$ 2,416.1

- In preparation for new Peer Review Organization (PRO) contracts to be negotiated in 1986, HCFA has revised the PRO scope of work to reflect increased focus on the quality of care rendered. For example, the new scope of work will:
  - Mandate the use of generic quality screens designed to detect inadequate discharge planning, discharge of medically unstable patients, deaths as a result of substandard care, nosocomial infections, unscheduled returns to the operating room or special care units, and traumas suffered in the hospital (e.g., fractures).
  - Intensify monitoring for premature discharges by requiring PROs to review samples of discharges, 1- and 2-day stays and all PPS hospital readmissions in the same PRO area within 15 days of discharge (instead of the current 7-day protocol).

1. RESEARCH, DEMONSTRATION AND EVALUATION PROJECTS

Authorizing Legislation - Social Security Act, Sections 1110, 1115, 1121(b)(2), 1875 and 1881(a); Rural Health Clinic Act, Section 3.

	1986 Appropriation	1986 Available after Sequestering	1986 Revised Estimate	1987	Increase or Decrease
Total Obligations	$ 30,650,000 [1]	$ 29,332,000	$ 22,000,000	$ 18,500,000	$ -3,500,000
Less Trust Fund Transfer	-14,750,000	-14,120,000	-7,700,000	-8,500,000	-800,000
Unobligated Authority	100,000	100,000	100,000	---	-100,000
Total Budget Authority	16,000,000	15,312,000	14,400,000	10,000,000	-4,400,000

[1] Reflects reduction of $350,000 pursuant to Section 515 of the conference version of the Treasury, Postal Service, and General Government Appropriations Act of 1986, included by reference in the full-year Continuing Resolution for 1986, P.L. 99-190.

Purpose and Method of Operation

The Health Care Financing Administration's (HCFA) research, demonstration, and evaluation (RD&E) activities provide knowledge to enable the Administrator, the Secretary, the Congress and other interested parties to make informed and rational decisions regarding HCFA programs and policies.

For a substantial period of time, the costs of health care services have been increasing more rapidly than those of the general economy. This means that not only has the absolute number of dollars spent on health care increased rapidly, but also that the proportion of the Gross National Product related to health care has steadily increased. This long-range trend is, and has been, a matter of primary concern to HCFA as the leading purchaser of health care in the United States. Since the inception of HCFA, the overall purpose of the RD&E program has been to find ways to control this inflationary trend and to insure that every dollar was used effectively in the service of HCFA beneficiaries.

HCFA's existing research, demonstration, and evaluation activities include projects to test new reimbursement, coverage, eligibility, and program management approaches as well as research and evaluation studies of the impact of HCFA programs on health care costs, program expenditures, beneficiary access to health care services, the quality of care provided to beneficiaries, and the economics of the health care industry. HCFA is extensively involved in the creation of new and improved data sets to support these ongoing research and demonstration activities. These projects result in knowledge about the basic structure, incentives, costs, and effects of HCFA programs and policies and make it possible to refine existing policies, simulate or test various program changes on a trial basis, and develop innovative financing and delivery systems. Given the complexity of the issues involved, HCFA is continually striving to improve the rigor of its analyses by applying state of the art econometric, epidemiological, and evaluative techniques. This effort has required sophisticated in-house and extramural staff involvement.

Research on hospital classification and case-mix provided a basis for Medicare hospital reimbursement reform, beginning with refinements to routine per diem cost limits and leading to expanded total case limits. Finally, the RD&E investment provided the basis for the most significant program reform since the inception of the Medicare program--the Prospective Payment System (PPS) based on a diagnosis-related groups (DRG) approach. Demonstration and evaluation activities proved the feasibility of this payment system in containing health care costs and developed tested methods to facilitate nationwide implementation. Initial results from implementation of this Prospective Payment System indicate that it will result in significant and ongoing savings to Medicare through its provision of financial incentives which encourage efficient health care delivery. A most important result is that the Medicare Hospital Trust Fund now appears solvent until the end of the century, at which time the aging of the population will place a new set of burdens on the Medicare program. The RD&E program is currently engaged in a major set of projects related to the evaluation, refinement, and extension of PPS.

HCFA's RD&E program has provided the basis for other program reforms such as risk-based payment for HMOs under Medicare extended coverage of cost-efficient providers such as ambulatory surgery centers and swing-beds in rural hospitals, and coverage of systems for community-based care as alternatives to expensive institutionalization. Without these RD&E activities, HCFA would not have the data base and factual experience necessary to develop successful legislative, policy, and program reform proposals related to PPS impact, refinement, and extensions to other areas.

Rationale for the Budget Request

HCFA's RD&E activities are focused in areas that directly relate to the Medicare and Medicaid programs. Because Federal expenditures under these programs are estimated at more than $100 billion in FY 1987, there is a significant Federal interest in the development and testing of alternatives to administer these programs in more efficient and cost-effective ways. HCFA's RD&E program has consistently produced results that have saved substantially more in program dollars than the cost of the RD&E; e.g., the work done with Yale University and the State of New Jersey on a hospital prospective payment system based on diagnosis-related groups, and the work done on health maintenance organizations. In addition, the Congress has repeatedly recognized the importance of this role by requiring that potential program changes be investigated by means of demonstrations before the enactment of full-scale legislative program changes and by mandating reports relative to the evaluation of program implementation (e.g., hospital prospective payment, swing-bed and hospice programs, and the home and community-based services waiver program).

The fiscal year 1987 request for funding of HCFA's research, demonstration, and evaluation activities is $18,500,000. The budget proposed for fiscal year 1987 represents continuation of already approved research, demonstration, and evaluation activities (including support of projects and studies mandated by the Congress).

HCFA's research, demonstration, and evaluation projects are conducted in seven program (priority) areas. We have revised the priority areas to combine program analysis/evaluation with quality of care, since these are so closely related, and to emphasize our interest in technology by adding it to the coverage priority area to which it is closely related. The priority areas are:

Alternative Payment Systems
Hospital Payment
Physician Payment
State Programs for Long-Term Care
Program Analysis, Evaluation, and Quality of Care
Technology and Coverage
Beneficiary Awareness and Prevention

The budget reflects, in large part, the continuation of the large number of Congressionally mandated research, demonstration, and evaluation projects. We estimate at this time (assuming no new congressionally mandated projects in FY 1986 and 1987) that during FY 1987, we will spend $5,031,196 for these projects. A breakout by priority area of congressionally mandated activities follows the discussion of the seven priority areas.

A general overview of the specific activities to be conducted in each of the seven priority areas during fiscal year 1987, as well as the funding by priority area, the overall goal within the priority area, the rationale for the proposed work, and our strategy for reaching the stated goal follow.

FUNDING BY PROGRAM AREA

Program Areas	FY 1986 Appropriation	FY 1986 Available After Sequestering	FY 1986 Revised Estimate	FY 1987
1. Alternative Payment Systems				
a. New	$ 3,050,000	$ 3,050,000	$ 750,000	--
b. Continuations	3,401,996	3,401,996	3,401,996	$ 5,500,000
Total	6,451,996	6,451,996	4,151,996	5,500,000
2. Hospital Payment				
a. New	2,113,016	1,855,016	955,016	--
b. Continuations	4,724,943	4,724,943	4,724,943	3,300,000
Total	6,837,959	6,579,959	5,679,959	3,300,000
3. Physician Payment				
a. New	--	--	--	--
b. Continuations	1,078,756	1,078,756	1,078,756	700,000
Total	1,078,756	1,078,756	1,078,756	700,000
4. State Programs for Long-Term Care				
a. New	--	---	---	---
b. Continuations	1,579,769	1,579,769	1,579,769	500,000
Total	1,579,769	1,579,769	1,579,769	500,000

Program Areas	FY 1986 Appropriation	FY 1986 Available After Sequestering	FY 1986 Revised Estimate	FY 1987
5. Program Analysis, Evaluation and Quality of Care [1]				
a. New	4,056,156	4,056,156	1,327,156	--
b. Continuations	7,176,867	7,176,867	5,773,867	7,100,000
Total	11,233,023	11,233,023	7,101,023	7,100,000
6. Technology and Coverage				
a. New	560,000	--	--	--
b. Continuations	1,626,193	1,626,193	1,626,193	800,000
Total	2,186,193	1,626,193	1,626,193	800,000
7. Beneficiary Awareness and Prevention				
a. New	500,000	--	--	--
b. Continuations	782,304	782,304	782,304	600,000
Total	1,282,304	782,304	782,304	600,000
TOTALS:				
New	$ 10,279,172	$ 8,961,172	$ 3,032,172	$ --
Continuations	20,370,828	20,370,828	18,967,828	18,500,000
Total Program	$ 30,650,000	[2] $ 29,332,000	$ 22,000,000	$ 18,500,000

[1] In fiscal years 1985 and 1986, quality of care studies were included under program area no. 6, formerly entitled "Quality and Coverage." In fiscal year 1987, we have combined program analysis/evaluation and quality of care since these are closely related. In the above table, for comparative purposes, we have shifted the aggregate figures for quality of care studies funded in fiscal years 1985 and 1986 into program area no. 5.

[2] Includes proposed reduction of $350,000 as required by Section 515 of the conference version of the Treasury, Postal Service, and General Government Appropriation Act of 1986, included by reference in the full year Continuing Resolution for 1986, P.L. 99-190.

1. Alternative Payment Systems

Goal: To identify, develop, demonstrate, and evaluate effective alternative health care delivery and/or payment systems to control costs of reimbursement under the Medicare and Medicaid programs without sacrificing the quality of care. To move towards payment systems based on capitation and competition in the marketplace.

Rationale: Prior research and demonstration activities involving the Medicare and Medicaid programs, which focused primarily on health maintenance organizations (HMOs), determined that alternative delivery systems and alternative risk reimbursement mechanisms are cost-effective and offer Medicare and Medicaid beneficiaries the opportunity for improved benefits over the existing fee-for-service system, primarily by decreasing hospital use and offering ambulatory and preventive care. We believe that the health care delivery and financing system is changing rapidly as different market forces and incentives come to bear. Capitated systems (including HMOs and competitive medical plans) are likely to include larger numbers of Medicare beneficiaries. There is a need to go beyond current Tax Equity and Fiscal Responsibility Act risk-based HMOs and competitive medical plan designs and test other delivery and financing systems that enhance competition among providers and yield savings to the program.

Strategy: This priority area by necessity cross-cuts several other areas (Hospital Payment, Physician Payment, State Programs for Long-Term Care). Therefore, projects in this area tend to include more than one segment of the Medicare/Medicaid population or one aspect of the health care delivery/financing system. Within this area, we are attempting to identify, test, and evaluate cost-effective alternative delivery and/or financing systems which impact on multiple segments of the programs. Therefore, we will continue to focus our efforts in this area on those projects (such as HMOs, Social Health Maintenance Organizations, and the Arizona Health Care Cost Containment System) designed to test systems which capitate payments for various types of services, those projects designed to study the impact of such systems on quality of and access to care, and those projects which seek to refine or test alternatives to the current methods and bases for payment to capitated systems.

We are specifically interested in identifying cost-effective service delivery and reimbursement alternatives, and demonstrating and evaluating these promising options to determine their cost-effectiveness, impact on quality of care, and impact of utilization and choice of services. Specific activities which are anticipated are as follows:

- We will continue to demonstrate and evaluate projects which pay for services under Medicare and/or Medicaid on a capitation basis to gain a better understanding of the impact of such systems on quality of care, cost and utilization of services, and the health care delivery patterns of providers. Included under this initiative are geographic capitation systems (including the intermediary-at-risk concept whereby reimbursement for Medicare Parts A and B services, as well as costs for all administrative services, would be capitated for all beneficiaries in a specific geographic area);

- We plan to continue our efforts to demonstrate and evaluate competitive models for clinical laboratory services and durable medical equipment as an alternative to the current financing system;

- We will continue to demonstrate and evaluate the Arizona Health Care Cost Containment System as a capitated health care delivery system; and

- We plan to continue to demonstrate and evaluate the social health maintenance organization concept as required by section 2355 of P.L. 98-369, to study a capitated delivery/financing system which integrates health and social services under the direct management of the provider of services.

Currently, another area of study is Medicare reimbursement to HMOs. Medicare reimbursement to HMOs is based on the adjusted average per capita cost (AAPCC) formula, which uses age, sex, welfare status, and institutional status as factors to predict the per capita amount that would be payable if Medicare services for HMO members were furnished in a fee-for-service market. In order to determine whether the AAPCC needs to be refined, we plan to continue our study of possible adjustments to the AAPCC.

2. **Hospital Payment**

Goal: To further refine, evaluate and expand the Medicare prospective payment system for hospitals without sacrificing the quality of care. To study cost-effective alternatives for payment of other acute care services under Medicare and Medicaid.

Rationale: The Social Security Amendments of 1983 (P.L. 98-21) established a prospective payment system (PPS) for most hospitals participating in the Medicare program. Section 603 of P.L. 98-21 included a congressional mandate to study a number of issues relating to PPS, including the impact of PPS on health care delivery and financing systems, and on other third-party payors; and the refinement of case-mix reimbursement. In addition, the Deficit Reduction Act of 1984 (P.L. 98-369) added to the number of congressionally mandated studies, reflecting a continuing need for improved understanding of the impact of PPS and of specific issues within PPS.

Strategy: Section 603(a) of P.L. 98-21 and other legislation mandated a series of studies on issues for refinement of the prospective payment system. We will be conducting both intramural and extramural projects on these issues to meet the congressional mandates, including studies to refine severity of illness measures, adapt current data for use in PPS recalibration, and refine case-mix measures; the impact of PPS on hospitals participating in clinical trials; and PPS impact on hospital support services such as the blood-banking industry.

Section 603(a) also requires the Secretary to report annually on the impact of the prospective payment system during the previous year on classes of hospitals, beneficiaries, other payors of inpatient hospital services, other providers, etc. We will continue to study the impact of the prospective payment system on quality of care, hospital behavior, cost of care, and discharge and admission patterns. We also plan to continue our demonstration and evaluation of alternative payment mechanisms for Home Health Agencies.

3. **Physician Payment**

Goal: To identify, develop, demonstrate, and evaluate effective alternatives to control the costs of physician reimbursement under Medicare and Medicaid without sacrificing the quality of care.

Rationale: The current systems (customary, prevailing, and reasonable) used under the Medicare and Medicaid programs to reimburse physicians promote inefficiencies in the use of health care resources and result in disparities between physician payment levels and beneficiary out-of-pocket expenditures.

Previous research studies have documented that the current payment systems do not encourage physician participation in Medicare and Medicaid, are complicated to administer, are not readily understood by physicians and beneficiaries, and do not promote cost-conscious medical decisions. The system encourages physicians to specialize, to practice in urban and suburban areas, and to perform high technology services in hospital settings. P.L. 98-369 addressed these matters by freezing physician fees, instituting a Medicare participating physician program, and directing the Department to report sooner on the physician DRG issue.

Strategy: Refinements to the current physician reimbursement system are necessary to reverse the inflationary incentives in the current system and create incentives for efficiency and lower charges while ensuring continued access to high quality care. Such refinements should make the system easier to understand and simpler to administer than the current system, and should be implementable, at least in part, in the near future.

In order to further study the impact of refinements to the payment system for physician services, we plan to continue to develop a physician data base using survey data (such as the survey of physician practices, costs and income), samples from carriers, and research data in order to permit the reliable application of statistical methods for research and policy simulation and analysis. HCFA will continue to pursue activities designed to refine the existing system and position itself to be able to move for capitated systems.

4. State Programs for Long-Term Care

Goal: To participate with States and localities in identifying, developing, demonstrating, and evaluating effective alternatives to control the costs of long-term care reimbursement under the Medicaid program without sacrificing the quality of care.

Rationale: Medicaid is a principal source of funding for long-term care in the United States. Between 1973 and 1981, long-term care expenditures for aged and developmentally disabled persons under Medicaid increased from $3.4 billion to $13.3 billion, an average annual rate of increase of 18.5 percent. Currently, nearly 50 percent of Medicaid expenditures are for long-term care services. This growth rate is likely to continue to increase in the future, due in part to demographic trends.

Because the Federal Government shares in the funding of the Medicaid program and in view of the anticipated growth in costs, we share the States' particular interest in State and locality-developed projects that would design and test alternatives to the current long-term care delivery and financing systems.

Strategy: In response to the increasing demands being made on the long-term care delivery and financing system and to the move away from the traditional institutional approach toward caring for the needs of the elderly in the community, we share the States' interest in taking actions aimed at furthering our mutual understanding of the characteristics and needs of the existing long-term care population and developing alternatives to the existing reimbursement and delivery systems.

To this end, we will assist States in their activities aimed at identifying, developing, demonstrating, and evaluating cost-effective alternative payment and delivery systems for long-term care which ensure continued access by beneficiaries to quality health care.

5. Program Analysis, Evaluation and Quality of Care

Goal: To further improve our knowledge and understanding of, as well as our ability to analyze, the impact of program changes and the factors influencing program performance and to ensure the maintenance of quality of care under the programs.

Rationale: The Congress has promoted major changes in the past few years to improve the effectiveness and efficiency of the Medicare and Medicaid programs. Research on and evaluation of these changes, as well as factors influencing program performance, provide the information on health care expenditures and utilization patterns of Medicare and Medicaid beneficiaries necessary to achieve more cost-effective program operations. Program changes have the potential to impact on the quality of care provided to program beneficiaries. As we move towards capitated systems, it is critical that we are able to accurately measure and to ensure continued access to quality health care for program beneficiaries. Valid quality of care measures are necessary in order to be able to assess and ensure the maintenance of quality health care under the programs.

Strategy: Our efforts in this area are intended to provide the information on health care expenditures and utilization patterns of Medicare/Medicaid beneficiaries necessary to achieve more effective program operations. Essential to this effort is the improvement of existing Medicare and Medicaid data bases.

We also plan to continue our efforts aimed at evaluation of major changes in the Medicare and Medicaid programs in order to determine the impact of these changes, as well as to provide the information necessary to determine how we might improve program performance in these areas.

As we move towards capitation and increased competition in the marketplace, the incentives for providers change from those present under a fee-for-service, cost reimbursement environment. In order to assess the impact of such changes, as well as to ensure the continuation of quality care provided to program beneficiaries, it is essential that we continue our efforts to develop and refine valid quality of care measures for different treatment settings. Anticipated activities include the following continuations in FY 1987:

- Refine hospital quality of care measures for use in determining absolute levels of quality and changes in quality over time;
- Develop measures of appropriateness and quality of care for sub-acute care;
- Develop appropriate data bases to capture quality measures through time; and
- Design methods of attribution which enable us to determine how various program changes influence quality of care.

6. Technology and Coverage

Goal: To assess the costs and benefits of coverage of new procedures, treatments, and services under the Medicare and Medicaid programs.

Rationale: Medical knowledge and technology development continue at an accelerated rate. Expansion of Medicare and Medicaid coverage to include new benefits or services, particularly in high cost areas, and to specify indicators for the cost-effective use of such technologies, is an important policy decision because of the high potential costs to the programs.

Strategy: We plan to continue our study of selected technology and Medicare and Medicaid coverage issues to determine the impact of expanding coverage, as well as the potential impact of new technologies on treatment and service utilization for particular segments of the Medicare/Medicaid population. Our efforts will include the following:

- We plan to study survival rates of end-stage renal disease patients, particularly focusing on the impact of treatment modalities on survival rates;
- We plan to continue our study of the cost effectiveness of nutritional therapy in delaying the need for renal dialysis; and
- We plan to continue our study of the effectiveness of behavior modification as a means of curing incontinence in the elderly.

7. Beneficiary Awareness and Prevention

Goal: To test the cost-effectiveness of covering under Medicare and/or Medicaid such preventive services as immunizations, screening, testing, and health education services. To test methods for improving beneficiary understanding of the various approaches to organizing and providing health care (e.g., HMOs, Preferred Provider Organizations (PPOs)).

Rationale: There is a body of literature which indicates that spending for preventive health care services will reduce overall spending in the long run. Despite this evidence, Medicare, many State Medicaid programs, and other third-party payors cover few preventive care services.

Strategy: As part of our long-range efforts to study and move toward some form of voucher system for reimbursing for health care services, we will conduct studies of the extent of understanding beneficiaries have with regard to the program, and the impact beneficiary awareness/education efforts have on program understanding, selection of health care alternatives, and selection of treatment modalities. We will also conduct studies to test methods for improving beneficiary understanding of the various approaches to organizing and providing health care (e.g., HMOs, PPOs).

In addition, because of the potential cost-effectiveness of preventive services, and the impact that such services may have on long-term beneficiary health and wellness, we will continue those projects designed to identify those services which may prove cost-effective as preventive services, study the effectiveness of these services in controlling health care costs, and study the most appropriate coverage/financing policies with respect to the services. This will include studies which demonstrate and evaluate the extent to which preventive services and patient education efforts prevent, control, delay, or reduce morbidity from chronic diseases, and reduce the overall cost of health care under the Medicare and Medicaid programs.

Congressionally Mandated Projects

As stated earlier, our estimates at this time (which assume no new congressionally mandated projects in FY 1986 and 1987) are that during FY 1987 we will spend $5,031,196 for these projects. A breakout by priority area of congressionally mandated activities follows:

- Alternative Payment Systems $ 386,567

  Projects which demonstrate and evaluate the social health maintenance organization concept as mandated by P.L. 98-369.

- Hospital Payment $3,288,232

  Projects that will study the impact of the Medicare prospective payment system on beneficiaries and providers and which will assist in the refinement and extension of the prospective payment system as mandated by the Social Security Amendments of 1983 (P.L. 98-21) and the Deficit Reduction Act of 1984 (P.L. 98-369). Projects that will develop, demonstrate, and evaluate the feasibility of alternative payment systems for home health agencies as mandated by P.L. 97-414 (Orphan Drug Act). Projects that evaluate the Medicare hospice program as mandated by P.L. 97-248.

- Program Analysis, Evaluation, and Quality of Care $1,289,397

  Projects that study the impact of the Prospective Payment System on quality of care as mandated by P.L. 98-21. Research projects conducted under the small business innovation research program.

- Technology and Coverage $ 67,000

  Projects that study the efficacy and cost-effectiveness of nutritional therapy in treating chronic renal disease as mandated by P.L. 96-499.

Program Highlights and Accomplishments

1. Alternative Payment

- Research has been initiated to study improvements to adjust for health risks in determining HMO capitation rates under Medicare.

- HCFA is researching refinements to the AAPCC formula considering geographic variations.

- A study has begun testing the efficacy of independent broker settings as an open enrollment mechanism for Medicare beneficiaries to join HMOs.

- Demonstration and evaluation activities are continuing to test the social HMO concept (integration of health and social services under direct financial management of a provider of services).

- Efforts are underway to demonstrate the feasibility and cost benefits of a competitive bidding model of reimbursement for provision of durable medical equipment.

2. Hospital Payment

- Research efforts to evaluate the hospice care benefit have begun.

- Studies are continuing to assess the impact of the Prospective Payment System including impact on other payors of inpatient hospital services, on cost shifting to less acute care providers, and on the blood-banking industry.

- HCFA is continuing efforts to determine refinements in DRGs by improving case mix and adjusting for severity of illness.

3. Physician Payment

- HCFA has initiated research designed to refine the existing physician payment system in order to position the programs towards a capitated system.

4. State Programs for Long-Term Care

- HCFA has begun an examination of the effects of State Medicaid nursing home policies on program utilization and expenditures in the nursing home market.

5. Program Analysis and Evaluation and Quality of Care

- Efforts are underway to develop valid measures of quality of care to identify short-stay hospital care that may be less than adequate.

- Projects have been initiated to study selected quality-related process and hospital utilization activities comparing pre- and post-PPS periods.

- HCFA is studying data related to discharge of Medicare beneficiaries and provision of long-term care and home health services.

- Research to clinically evaluate the impact of PPS on both process and outcomes of care for both high and low risk Medicare patients has begun.

- Studies to assess interactions and tradeoffs between changes in quality and improved efficiency resulting from PPS implementation have been initiated.

- HCFA is analyzing the status of Medicare patients at discharge to compare functional status before and after PPS implementation to determine if patients are being discharged in a more or less frail state.

- Development and implementation of a Medicaid person-level data set including data on enrollment, claims and providers, is continuing.

6. Technology and Coverage

   - o A project has been implemented that will determine whether behavioral modification techniques can significantly improve the management of Skilled Nursing Facility incontinent patients and do so in a cost-effective manner.

   - o HCFA is studying the safety and efficacy, and also determining the cost-effectiveness, of nutritional therapy in reducing the need for dialysis.

7. Beneficiary Awareness and Prevention

   - o Demonstration and evaluation activities are underway to provide early detection of illness and monitoring of high risk Medicare beneficiaries through a preventive services package.

   - o HCFA has implemented studies to determine the cost-effectiveness and efficacy of Medicare reimbursement for preventive services.

2. MEDICARE CONTRACTORS

Authorizing Legislation - Social Security Act, Sections 1816 and 1842, 42 U.S.C. 1395.

	1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
Total Obligations	$ 963.5	$ 922.1	$ 920.0	$ 956.8	+36.8
Contingency Fund	15.0	14.4	14.4	50.0	+35.6
Total Resources	978.5	936.5	934.4	1,006.8	+72.4

Purpose and Method of Operations

The Medicare contractors carry out the government's responsibility of reimbursing Medicare beneficiaries and providers of service in a timely, accurate, and fiscally responsible manner. Our growing aging population and their respective need for medical services, compounded by inflation in the cost of health care, causes outlays for Medicare benefits to spiral. In FY 1987, outlays for Medicare's 32.4 million beneficiaries will be approximately $75.6 billion with an estimated workload of 382.1 million claims. HCFA has and will continue to implement policies designed to control cost through changes in reimbursement methodology and aggressive efforts to detect fraud and abuse. The Medicare contractors are at the core of this dynamic environment and play a vital role in the processing of Medicare claims and preserving the fiscal integrity of the trust funds.

The cost of administering the Medicare program will be $956.8 in FY 1987, 1.3 percent of total Medicare outlays. HCFA has successfully reduced the proportionate share of administrative costs while, at the same time, it has imposed greater demands on the Medicare contractors. These additional responsibilities resulted from changes in Medicare reimbursement policy, initiatives to reduce program expenditures, enhanced HCFA focus on new priorities, and an increase in claims workload.

Intermediaries are responsible for reimbursement to providers of services under Part A of the Medicare program. These responsibilities encompass receiving and accounting for Medicare benefit payments, auditing the financial records of providers, making final settlement of cost reports, recovering any Medicare overpayments, and safeguarding trust funds against payment for services that are not medically necessary. Significant changes have been made to the reimbursement methodology for inpatient hospital services. Under HCFA's Prospective Payment System (PPS), intermediaries reimburse hospitals for inpatient services based upon the number of Medicare beneficiaries in a Diagnosis Related Group (DRG) and the DRG rate for the primary diagnosis. The PPS replaces the cost per case limits created by the Tax Equity and Fiscal Responsibility Act (TEFRA). However, hospitals in those States which are exempt from PPS will continue to be reimbursed according to the provisions of the waiver.

Carriers are responsible for reimbursement to beneficiaries and providers of service under Part B of the Medicare Program. These responsibilities include receiving and accounting for Medicare benefit payments, accounting for funds made directly to and/or on behalf of eligible Medicare beneficiaries, determining the allowable reasonable charge for a covered service that was medically necessary, computing and recovering overpayments if reimbursement was made erroneously, and establishing methodologies to identify aberrant utilization patterns which deviate from medically accepted norms and bringing such patterns to the attention of the appropriate professional groups.

Intermediaries and carriers provide information, guidance and technical support to both providers of service and beneficiaries on the administration of the Medicare program. Costs incurred by the intermediaries of $332.4 million and carriers of $624.4 million in fulfilling their respective responsibilities are reflected in the Medicare contractor budget request.

HCFA currently negotiates 91 contracts with intermediaries and carriers, including five experimental fixed price contracts. HCFA is responsible for monitoring all of these contractors' expenditures, tracking savings realized from payment safeguard activities and productivity investments, and reviewing contractor performance in paying claims, serving Medicare beneficiaries and assuring the fiscal integrity of the Medicare trust funds.

HIGHLIGHTS

Vulnerability Assessment Project (VAP) - This project represents a management effort to reduce the losses to the Medicare trust funds by expanding payment safeguard activities. This will be accomplished by employing vigorous efforts to assure ourselves that reimbursement is made for only covered services rendered to eligible beneficiaries for an amount within reasonable cost or charge limits. In addition, VAP is expected to create an environment that reduces the likelihood of new sources of losses to the trust funds.

Secondary Payer - In FY 1985, HCFA worked with and issued instructions to the contractors on identifying Medicare beneficiaries covered by other insurance. Our purpose was to make the private insuror the primary payer of claims and assure ourselves that Medicare pays only for those services not covered by private insurance. This activity, Medicare Secondary Payer (MSP) will continue in FY 1986 and FY 1987.

Standard System - Due to the ongoing changes to the Medicare program, the contractors are constantly making systems changes to comply with new programmatic requirements. The goal is to convert 30 intermediaries and 3 carriers to efficient transportable systems in FY 1987. In addition, HCFA is planning processing consortia to develop state-of-the-art model claims processing specifications.

Pacemaker - Section 2304 of the Deficit Reduction Act (DEFRA) requires HCFA to work with the Commissioner of the Food and Drug Administration to provide for a registry of all cardiac pacemaker devices and pacemaker leads. HCFA has required providers to track warranties on pacemakers beginning in FY 1985. This activity will allow Medicare to recover the costs of malfunctioning devices and limit the number of problem devices on the market.

MEDICARE CONTRACTOR BUDGET
FY 1987
(Dollars in Millions)

PAYMENT SAFEGUARDS	1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase (+) or Decrease (-)	Program Dollar Savings
Medical Review/Utilization	$ 90.9	$ 90.9	$ 90.9	$ 90.6	$ -.3	$ 585.6
Audit	112.8	103.9	103.9	80.6	-23.3	403.0
Medicare Secondary Payer	28.0	28.0	28.0	28.1	+.1	770.0
Total Payment Safeguards	$ 231.7	$ 222.8	$ 222.8	$ 199.3	$ -23.5	$ 1,758.6
PRODUCTIVITY INVESTMENTS	$ 28.8	$ 15.9	$ 15.9	$ 29.7	$ +13.8	
CLAIMS PROCESSING						
Bill/Claims Payment	$ 521.7	$ 510.3	$ 508.2	$ 522.3	$ +14.1	$ 8,113.6
Reimbursement	24.0	22.9	22.9	23.8	+.9	
Printing	3.1	1.5	1.5	1.5	0.0	
Fixed Price Contracts	57.2	57.2	57.2	62.0	+4.8	
Total Claims Processing	$ 606.0	$ 591.9	$ 589.8	$ 609.6	$ +19.8	$ 8,113.6
BENEFICIARY & PROVIDER SERVICES						
Hearings	$ 25.0	$ 23.3	$ 23.3	$ 26.4	$ +3.1	
Eliminate Waiver Presumption				12.8	+12.8	
Beneficiary Communications	57.0	57.0	57.0	63.8	+6.8	
Participating Physicians	15.0	11.2	11.2	15.2	+4.0	
Total Beneficiary & Provider Services	$ 97.0	$ 91.5	$ 91.5	$ 118.2	$ +26.7	
Total Operating Funds	$ 963.5	$ 922.1	$ 920.0	$ 956.8	$ +36.8	$ 9,872.2
Contingency Fund - Operating	15.0	14.4	14.4	50.0	+35.6	
Total Contractor Budget	$ 978.5	$ 936.5	$ 934.4	$1,006.8	$ +72.4	$ 9,872.2

Rationale for the Budget Request

I. PAYMENT SAFEGUARDS

In addition to the processing and payment of claims from providers of service and Medicare beneficiaries, a priority of HCFA is for the contractors to perform a medical review of claims to ascertain whether the services were medically necessary and constituted an appropriate level of care, to audit the Medicare cost reports of providers, and to assure that Medicare is the secondary payer if a beneficiary's services are covered by private insurance (MSP). These medical review, audit and MSP activities are referred to as payment safeguards.

A. Intermediary Medical Review

HCFA implemented the Peer Review Organization (PRO) program to conduct review of all inpatient hospital services. Intermediaries have retained responsibility for review of services delivered in other than inpatient acute care settings, to assure that such services are medically necessary and appropriate.

During FY 1986, intermediaries concentrated most of their medical review resources on the review of hospital-based outpatient claims and on services provided by Skilled Nursing Facilities (SNFs) and Home Health Agencies (HHAs). With the advent of PPS and the increasing number of home health providers, it was deemed necessary to closely monitor claims for both of these services so as to deter abuse through early discharges by hospitals and to institute immediate and appropriate remedial actions if abuse was detected.

In FY 1987, intermediaries will refine review methods so as to target and more closely identify areas for more intensive review. Emphasis will continue to be placed on hospital-based outpatient services such as physical therapy. Emphasis on home health agencies will focus on utilization through use of a standard medical information form and revised home health screens which focus on physicians who order excessive home health benefits. Home health review changes effected during FY 1986 are expected to result in uniformity of benefits and to assure that services provided are medically necessary. Required review methodologies of home health and hospice claims will continue to incorporate home visits. Intensive review will be required for claims from comprehensive outpatient rehabilitation facilities (CORFs).

Intermediary medical review costs will increase from $32.2 million in FY 1986 to $43.6 million in FY 1987. This increase is primarily attributable to workload growth and inflationary increases which are consistent with the latest Office of Management and Budget economic indicators and an increase in the review and oversight of HHAs. Program savings in FY 1987 are expected to be $218.0 million.

B. Carrier Medical Review

Part B medical review consists of a two-tiered approach to identify inappropriate services and take action when questionable patterns of practice are found. One approach is the development and use of more sharply defined computerized prepayment utilization screens to control inappropriate claims and overutilization. Carriers now have in place numerous screens based upon previously identified problem areas. Several mandated screens with parameters will be instituted nationwide during FY 1986. These screens assure uniformity of application toward areas of national concern and provide contractors with the capability to examine those claims for services which are adjudged to be subject to abuse; to take corrective action where needed, and impose controls on payment for services rendered by problem providers before a claim is fully processed. Review protocols have been developed by HCFA and carrier personnel are required to use these protocols in their review of claims that fail the screens.

When a claim fails a prepayment screen, it must be reviewed by the carrier. The first level of such review is normally performed by clerical personnel or claims examiners with the aid of written guidelines. Questions which cannot be resolved at this level are referred to a second level of review, traditionally performed by paramedical personnel or registered nurses. These reviewers obtain additional information and undertake appropriate development of claims in order to make a decision on the medical necessity of services rendered. The third, and final, level of review is performed by physicians who are either employed by the contractor or available on a consultant basis.

The second tier of medical review is the use of postpayment reviews. The postpayment review process assists in the identification of potentially fraudulent or abusive practices requiring more intensive investigation and followup through:

1. monitoring physician, supplier or laboratory claims through use of experience and development of appropriate statistical data;

2. identification of physicians, suppliers and laboratories with aberrant utilization patterns; and

3. recovery of overpayments.

Another source for detecting inappropriate payments results from the review of data pertaining to such Part A denials as inpatient and SNF services. This data is provided to carriers monthly by fiscal intermediaries on computer tapes. Claims for physicians' services associated with medical denials must be reviewed intensely since there is a strong likelihood that the associated physician services are also not medically necessary.

In addition, postpayment review identifies the need for new or modified prepayment controls. For example, prepayment screens are developed on the basis of postpayment review findings, thereby enabling contractors to examine questionable or potentially abusive procedures before payment is made. Further, carriers perform Program Integrity activities and provide support to the HHS/OIG to identify and develop cases of fraud or abuse.

In FY 1987 carrier medical review costs will decrease from $58.7 million in FY 1986 to $47.0 million in FY 1987. Although carriers have earned an excellent return on program costs, HCFA will analyze the FY 1986 costs and savings for each screen which carriers use to assess those screens which have the highest rate of return with the anticipation that carriers can achieve even better savings. During FY 1986 we will implement a system which will precisely measure (for the first time in the history of the Medicare program) the benefit-to-cost return for each screen and/or parameter used by any carrier. It is anticipated that the system will be completed in FY 1986 so that in FY 1987 we may refine the current screens and parameters for HCFA mandates. In addition, this will be the first time that we are in a position to maximize potential return. Program savings in FY 1987 are estimated to be $367.6 million.

C. Audit of Provider Cost Reports

In FY 1987, the audit of provider cost reports will continue as a major program safeguard initiative. Program payments for beneficiary services are anticipated to approach $70 billion by FY 1987, and the audit of provider cost reports is the primary instrument with which the integrity of these funds is maintained. Historically, the audit process has recovered millions of dollars in improper program payments each year. In FY 1983 and FY 1984 (base period audit effort for the Medicare prospective payment system (PPS)) provider audit recovered program payments in excess of $700 million and $1 billion, respectively, and in FY 1985, recoveries also exceeded $1 billion. Early indicators show that similar, significant program recoveries will result from provider audit through FY 1987. With the advent of the Medicare PPS, it is anticipated that there will be a decrease in the ratio of program recoveries to the cost of performing provider audits; however, this decrease may not be significant in terms of total program funds recovered since PPS has caused changes in the health industry (i.e., growth patterns in home health and skilled nursing care, and transitions in hospitals to open distinct part units that are exempt from PPS) which lend themselves to audit and program recoveries.

In addition to growth patterns and transitions in the health care industry, there are other program considerations addressed in the FY 1987 audit plan. Also, legislative proposals are being developed to incorporate capital-related costs into prospective rates, which requires that accurate provider cost data be available.

Based on program statistics for FY 1985 there are 479 new freestanding HHAs and 988 new freestanding SNFs participating in the Medicare program, representing increases of 12.67 percent and 18.95 percent respectively. Considering this trend will remain relatively constant throughout FY 1986, we anticipate that there will be approximately 1300 additional new providers (HHAs and SNFs) subject to audit under cost-based principles of reimbursement in FY 1987.

The data also show that there has been a decrease (4.55 percent) in the number of hospitals under PPS that are single entity providers, and an extremely sharp increase (29.55 percent) in the number of PPS hospitals with excluded units and other subproviders which are exempt from PPS. Also, there has been an additional increase (11.13 percent) in the number of hospitals participating in the Medicare program that are exempt from PPS which is represented by 166 new hospitals having entered the program.

Approximately 93 percent of total program payments are paid to hospitals. Our review of these hospital payments indicates that amounts paid to non-PPS providers, in addition to the cost portion of payments to PPS providers, represents 39 percent of total payments to providers. Therefore, in addition to auditing providers which are on a cost basis, it will still be necessary to perform a considerable amount of audit effort on PPS providers in order to verify the amount reimbursed on a cost basis, in addition to responding to the special policy issues discussed earlier.

The audit of hospital cost reports shows that intermediaries are recovering approximately $5 in improper program payments for every dollar spent on audit. These are cost reports filed under the Tax Equity and Fiscal Responsibility Act (TEFRA) regulations and are reimbursed based upon cost. The audit of PPS cost reports will be directed through the issuance of revised PPS audit guidelines, to the verification of the core data, as well as to the verification of Medicare's proportionate share of pass-through items (i.e., capital, indirect and direct medical education costs and outlier costs) and the allocation of costs between hospital inpatient and outpatient departments. Since outpatient services and distinct part units continue to be reimbursed based upon reasonable costs, there is a potential for cost shifting to maximize Medicare reimbursement.

Based upon our review of the base period audit findings, we identified the most significant and recurring audit adjustments, and designed audit strategies to identify the existence of each issue. There were 30 significant issues identified and they were applied for the first time during the audits of the first hospital cost reports filed under TEFRA regulations. These guidelines, in concert with the guidelines developed specifically for PPS, will be applied during FY 1986 and FY 1987.

Adjustments to capital-related costs, i.e., depreciation, interest and equity capital, could affect Medicare program reimbursement by an estimated $310 million. Other adjustment areas which include improper cost shifting to cost based areas, related organization costs, and nonallowable cost centers may result in an additional $74 million in reductions to program costs. (Amounts discussed in this paragraph were projected for the FY 1986 audit effort.)

Priority by type of provider is as follows:

Hospitals and Hospital Complexes

The audit of PPS and non-PPS (TEFRA) hospital cost reports will be arrayed and prioritized based upon the Audit Priority Matrix and related audit budget guidelines. Hospitals which are both multi-facility complexes (existence of subproviders) and part of a chain will be the top priority. The existence of either of these conditions will also indicate high audit priority.

There are over 3000 hospital providers which meet these criteria. The reason we have placed emphasis on these providers is that they encompass the audit of at least one added subprovider, i.e, skilled nursing facility, home health agency, related organization; thus, resulting in the audit and settlement of at least two cost reports.

The remaining hospitals will be prioritized and selected for audit depending upon the presence of the following conditions:

- Existence of PPS excluded units (i.e., psychiatric and rehabilitation units)
- Pass-through costs
- Outpatient costs
- Approved teaching program

Each of these conditions relate to a provider's cost-based reimbursement, which the intermediary will assess in determining the need for audit.

We have determined that most hospital audits will still require 60 percent of the audit effort expended on the base period cost reports, even though the portion of a PPS hospital's Medicare reimbursement which is based on cost may only be 15 - 20 percent. Therefore, the number of audit hours per PPS hospital has been reduced to 60 percent of the level applied in the base year. The reduction in the scope of audit was initiated in FY 1986 and will be carried through FY 1987.

Beginning in FY 1984, intermediaries initiated audits of the hospital cost reports for those providers located in PPS waiver States (New Jersey, Massachusetts, New York and Maryland). These audits will continue on an ongoing basis in FY 1986 and FY 1987 at the same audit level as PPS and TEFRA cost reports. Accordingly, the audit hours required to complete each audit should be approximately 60 percent of the previous effort.

Home Office Cost Reports

Based upon the TEFRA provisions and the implementation of PPS, there are numerous incentives for chain home offices to maximize the amount of capital costs allocated to hospitals, and to allocate as much operating cost as possible to providers that remain on a cost reimbursement basis, i.e., HHAs and SNFs. Therefore, we will focus our audit efforts on costs reported and allocated by home offices. In addition, we will be reviewing all significant mergers and acquisitions to determine the effect on Medicare reimbursement. This activity will be coordinated through our Special Mergers and Acquisitions Review Team (SMART).

Other Providers

As a result of PPS, we have identified that Medicare utilization and reimbursement to other types of providers, particularly HHAs, has significantly increased. Statistics for the 6-month period ending March 31, 1985, show that Medicare payments to HHAs have increased 21 percent. Of the Medicare-certified HHAs, approximately 34 percent receive 85 percent of the Medicare reimbursement. Approximately 9 percent of the Medicare-certified SNFs receive 43 percent of the program reimbursement. By auditing cost reports of 34 percent of the HHAs and 9 percent of the SNFs, we will be reviewing approximately $1.2 billion in benefit payments.

There are other types of providers which receive reimbursement under the Medicare program. These providers include, but are not limited to, hospices, end stage renal disease (ESRD) facilities, rural health clinics, and health maintenance organizations (HMOs). These providers must be audited to varying degrees every year. Hospices must be reviewed in order to fulfill our commitment to Congress to apprise them of hospice operating costs; ESRDs must be audited at least from an exception prospective, and the new emphasis on HMOs and their rapid growth also requires an extensive audit effort.

As intermediaries redirect their audit activity to focus on certain types of cost and provider types other than hospitals in FY 1985 and FY 1986, HCFA will analyze the audit findings to determine the relative payback of auditing various classes of providers. The results of the analysis will be used to project future audit levels as well as to allocate audit resources to areas which prove to be most productive.

FY 1987 AUDIT EFFORT BY TYPE OF PROVIDER

		Percent to be Audited	Number to be Audited
Hospitals			
PPS			
Total hospitals	5,313		
Multi-facility and part of chain	416	100%	416
	4,897		
Other multi-facility hospitals	1,152	80%	921
	3,745		
Other chain affiliated hospitals	1,042	70%	729
Remaining PPS hospitals	2,703	55%	1,486
Total PPS hospitals to be audited			3,552
Non-PPS Hospitals			
Total hospitals	1,608		
Chain affiliated	448	70%	314
	1,160		
Waiver State hospitals	573	70%	401
Remaining non-PPS hospitals	587	50%	293
			1,008
Total Hospitals to be Audited			4,560
Home Office Cost Reports			
Total number of chains	550		
Chains with over 10 providers	93	100%	93
	457		
Governmentals	32	20%	6
	425		
Proprietary	280	90%	252
Non-proprietary	145	75%	109
Total home office audits			460
Hospices			
Approximate FY 86 certified hospices	200	55%	110
HHAs			
Freestanding	5,556	34%	1,889
SNFs			
Freestanding	5,960	9%	536
Other			
ESRD, RHC, HMO and CORF	1,856	14%	259

FY 1987
AUDIT COST BY
TYPE OF PROVIDER
($ in millions)

	Number of Facilities	Audit Cost	Total Audit Cost	Percent of Benefits Audited
Desk Review	19,100	--	$ 17.9	
Field Audit:				
PPS Hospitals				
Multi-facility and part of chain	416	$ 4.1		
Other multi-facility hospitals	921	8.5		85%
Other chain affiliated hospitals	729	6.4		
Remaining PPS hospitals	1,486	11.6		59%
Total	3,552	30.6	30.6	
Non-PPS Hospitals				
Chain affiliated	314	2.9		
Waiver audits	401	3.4		
Remaining PPS hospitals	293	2.5		
Total	1,008	8.8	8.8	63%
Skilled Nursing Facilities				
Freestanding	536	1.0	1.0	43%
Hospital-Based	945	*		
HHAs				
Freestanding	1,889	3.6	3.6	85%
Hospital-Based	1,299	*		
Home Office				
Chain home office cost reports	460	4.4	4.4	
Other Audits				
Hospices	110	.3		
ESRD, RHC, HMO	259	.7		
	369	1.0	1.0	14%
Total Field Audit Cost			$ 49.4	74%
Cost Report Settlement:				
Normal Costs	19,100		12.6	
Settlement Backlog	1,100		.7	
Total Settlement Costs			$ 13.3	
Total Audit Cost			$ 80.6	

* Hospital-based SNFs and HHAs are included in multi-facility hospitals audit cost.

D. Medicare Secondary Payer

In FY 1984 and FY 1985, HCFA has worked with and issued instructions to the contractors on identifying base Medicare beneficiaries covered by other insurance. Our purpose was to make the private insuror the primary payer of claims and assure ourselves that Medicare pays only for those services not covered by private insurance. This activity, Medicare Secondary Payer (MSP), has 5 distinct parts:

- Working Aged Insurance
- Spousal Working Aged Insurance
- Automobile, Medical, Liability and No-Fault Insurance
- End Stage Renal Disease (ESRD)
- Workers' Compensation

Estimated MSP savings to the Medicare trust funds are $725 million for FY 1986 and $770.0 million in FY 1987. During FY 1985, $27 million was spent and $750 million in benefit savings were realized, a savings ratio of 28:1.

The primary objective of HCFA is to have the providers of service, rather than the contractors, ascertain whether a Medicare beneficiary has other insurance and, if so, bill the primary insuror. We are also establishing edits to facilitate the identification of cases where Medicare may be the secondary payer. As part of our efforts to have the providers identify MSP cases, we have:

- developed a videotape training package for hospital admission and billing personnel. One videotape will be supplied to each regional office and intermediary during the last quarter of FY 1985.
- prepared a letter to Medicare beneficiaries advising them of the working aged provision and requesting that they identify other insurance coverage to their providers of service.
- required intermediaries to audit the MSP activities of one hospital per quarter or four a year.
- required contractors to conduct training on MSP for the providers they serve.

Funding for MSP in FY 1985 was originally $19 million. However, this was not sufficient for the contractors to develop and fully implement MSP and we received an additional $8 million from the contingency fund, for a total of $27 million. In FY 1986 and FY 1987, the contractors will need funds for system enhancements. Moreover, those contractors with MSP operations will need to automate and thus increase their efficiency. They will also need funds to develop, follow-up, and process MSP claims. A funding level of $28.1 million is requested for this effort in FY 1987. Associated benefit savings are estimated to be $770.0 million.

II. PRODUCTIVITY INVESTMENTS

Productivity investments are activities designed to make Medicare contractors' operations more efficient and cost effective. As a general rule when HCFA invests in the project, there must be corresponding savings in a contractor's claims processing costs. This would not apply where HCFA is requiring a systems change for program purposes.

Stringent return on investment criteria are used to assess whether new systems should be funded. At the time a contractor requests approval of a new claims processing system, documentation of the level of savings in claims processing costs that will be realized if the project is approved must be furnished. The contractor is, in fact, given a loan to fund the system. The funds must be repaid with interest (in terms of savings in claims processing costs) over a 2-year period. If the contractor demonstrates that the "loan" can be repaid within 2 years, the new system will be approved. Otherwise, funding will be denied.

Those investments funded in prior years generated significant savings in claims processing costs. In FY 1985 and FY 1986, each contractor was assigned a performance level unit cost. When arriving at the performance level unit cost, expected savings from productivity investments were factored into the calculation. These savings were part of the basis for estimating FY 1987 claims processing costs. Consequently, the chart on page 110 reflects savings in FY 1987 based upon investing the funds in FY 1987 as well as savings realized in FY 1985 and FY 1986.

Other initiatives represent activities which do not produce direct administrative savings, but are necessary to improve the overall quality and effectiveness of administering the Medicare program. Some of these initiatives are mandated by statute.

A description of each proposed initiative follows:

Electronic Media Claims (Part A and Part B) ($4.5 Million)

The Electronic Media Claims (EMC) initiative represents an effort to convert Part A bills and Part B claims to electronic media submission. The resultant elimination of data entry costs generates significant savings. In FY 1987, we believe 60 percent of the Part A bills will be submitted electronically, an increase of 12 percent over FY 1985. Our goal is to take advantage of prior years' marketing efforts at hard sell providers. Intermediaries will need funds for increased line capacity as well as upgraded equipment. The estimated cost of this effort is $1.0 million in FY 1987; savings are estimated to be $1.0 million. While the savings is equal to the cost in FY 1987, the savings from this effort continue in future years. We also believe 30 percent of the Part B claims will be submitted electronically in FY 1987, an increase of 10 percent over FY 1985. We plan to take advantage of prior years' marketing efforts at small volume providers. Carriers will need funds for increased line capacity and upgraded equipment to enhance their capability to receive different types of claims electronically. The estimated cost of this effort is $3.5 million in FY 1987; savings are estimated to be $5.3 million. These savings as in Part A continue in future years.

Standard System (Part A and Part B) ($12.5 Million)

Due to the ongoing changes to the Medicare program, the contractors are constantly making systems changes to comply with new programmatic requirements. In FY 1987, we plan to convert 30 intermediaries to efficient transportable systems. We will implement a transportable system for carriers at three test sites in FY 1987. Further implementation will take place in FY 1988. We are also planning processing consortia and to develop state-of-the-art standard claims processing specifications. This will facilitate the implementation of required programming changes as well as enable us to readily transfer workload from high cost, poor performing contractors.

Contractors will need funds in FY 1987 to design as well as write, test, and debug computer programs. They will also need to install the system, train staff, test the system and run it parallel with their old system until they are certain the new system is operational.

Savings will begin to accrue in FY 1988. With a standard system when changes are required (such as the physician fee freeze or PPS), one contractor will be funded for the changes and others will install it. By paying only one contractor to make the changes, significant dollars will be saved. We are requesting $12.5 million for this effort in FY 1987.

Upgrade of Claims Processing Systems (Part A and Part B) ($3.0 Million)

Systems upgrades represent the cost of contractors upgrading their systems to comply with legislative/programmatic changes. We estimate five intermediaries and one carrier will be upgrading their systems to comply with required changes in FY 1987. Savings will be realized because we are paying a small number of contractors to make changes that will apply to all; thus, other contractors will not incur these same costs. We request $3.0 million for this effort in FY 1987; savings of $1.5 million will be realized as a result.

HHA Contractor Reconfiguration ($.8 Million)

Section 2326(b) of DEFRA requires that the number of designated regional intermediaries serving freestanding home health agencies be reduced to no more than ten by July 1, 1987. HCFA intends to take this one step further and transfer provider-based home health agencies to the regional intermediaries in FY 1987. This will enable us to better manage home health benefits since 10 intermediaries will process all home health bills, not only those from freestanding facilities. We are requesting $.8 million to complete this transfer in FY 1987.

Contractor Strategy ($2.7 Million)

In FY 1986, we will replace poor performing contractors ranked over time in the lowest 20th percentile as measured by the Secretary's cost and performance criteria. In removing the contractors from participation in the Medicare program, we will incur termination costs. Based upon past experience, we are requesting $2.7 million for this effort in FY 1987; savings of $4.0 million will be realized as a result.

Consolidations ($1.8 Million)

We believe that one consolidation will take place in FY 1987 due to contractors no longer participating in the Medicare program. We are requesting $1.8 million in FY 1987 for termination and transition costs associated with the consolidation.

Pacemaker Registry ($1.0 Million)

DEFRA requires the Secretary to provide a registry for all permanent pacemakers and leads for which payment is made under Medicare. In order to meet this requirement, intermediaries must collect, edit and furnish additional pacemaker related data to HCFA, quarterly. Funding will be required during FY 1987 to support this activity. The collected data is furnished to the Food and Drug Administration, who maintains the registry.

Systems Security ($1.3 Million)

Contractors are required by the Office of Management and Budget (OMB) to meet minimum standards for systems and data security to protect the confidentiality of beneficiary and provider records. The systems security requirement of the Privacy Act is set forth in OMB Circular A-71. Based on a risk analysis, contractors are expected to implement or update appropriate administrative, technical and physical safeguards to comply with OMB requirements.

HMO Query System ($2.1 Million)

With the proliferation of more risk Health Maintenance Organizations (HMOs), there is a greater need for intermediaries to have the capability to query the status of Medicare entitlement, HMO enrollment and remaining utilization through existing on-line provider networks. Access to this on-line query system will prevent beneficiaries from receiving out-of-plan services without the provider's knowledge of HMO enrollment. This effort will require $2.1 million in FY 1987.

PRODUCTIVITY INVESTMENTS
INTERMEDIARIES
(IN MILLIONS)

Proposal	Amount Requested		Savings
	FY 1986	FY 1987	FY 1987
Electronic Media Claims	$ 2.0	$ 1.0	$1.0
Standard System	3.2	8.5	0.0
Upgrade of Claims Processing Systems	0.0	2.5	1.2
HHA Contractor Reconfiguration	0.0	0.8	0.0
Contracting Strategy	0.7	0.7	0.4
Consolidations	0.0	1.8	0.0
Pacemaker Registry	0.0	1.0	0.0
Systems Security	0.0	0.6	0.0
Notice of Admission Changes	1.3	0.0	0.0
Beneficiary Initiatives	0.2	0.0	0.0
Expansion of UB-82	0.8	0.0	0.0
HMO Query System	1.0	2.1	0.0
Total Intermediaries	$ 9.2	$19.0	$2.6

PRODUCTIVITY INVESTMENTS
CARRIERS
(IN MILLIONS)

Proposal	Amount Requested		Savings
	FY 1986	FY 1987	FY 1987
Electronic Media Claims	$ 4.0	$ 3.5	$ 5.3
Standard System	0.0	4.0	0.0
Upgrade of Claims Processing Systems	1.2	0.5	0.3
Contracting Strategy	0.7	2.0	3.6
Systems Security	0.0	0.7	0.0
Beneficiary Initiatives	0.8	0.0	0.0
Total Carriers	$ 6.7	$10.7	$ 9.2
All Contractors	$15.9	$29.7	$11.8

III. CLAIMS PROCESSING

A. Claims Payment - $522.3

Contractors must determine whether services for which claims are received are covered, whether the patient is entitled to benefits, and the amount of payment in a timely and accurate manner.

Claims payment includes direct and indirect costs associated with the receipt, processing and payment of Medicare claims. These costs include labor, ADP and administrative support activities for cost-contractors only. Also included are the costs of processing claims for certain demonstration projects.

The following tables show workload and unit cost data for Fiscal Years 1984-1987.

(Workload in Millions)*

Part A	FY 1984	FY 1985	FY 1986	FY 1987
Total Bills	49.1	58.6	62.1	65.8
% Change		19.3	6.0	6.0
Part B				
Total Claims	224.7	265.9	287.4	316.3
% Change		18.3	8.1	10.1

*Includes the workload of both cost contractors and fixed price contractors.

The Claims payment unit cost is derived by dividing the cost of this activity by the bill/claims workload. The table below indicates the trend in the cost of processing claims.

Unit Cost

Cost Contracts:	FY 1984	FY 1985	FY 1986	FY 1987
Part A	$ 2.64	$ 2.29	$ 2.00	$ 1.75
Part B	$ 2.04	$ 1.88	$ 1.76	$ 1.72

FACTORS IMPACTING WORKLOAD AND UNIT COST

- Workload is based upon FY 1986 estimated actual claims and has been adjusted by the rate of increase between FY 1985 and FY 1986 (6.0 percent for Part A; 8.1 percent for Part B) and between FY 1986 and FY 1987 at the same rate of growth for Part A (6.0 percent) and Part B (10.1 percent).

- Inflation is assumed to be 4.1 percent which is consistent with the latest Office of Management and Budget economic indicators.

- We are assuming that the FY 1987 incremental workload can be processed at 75 percent of the cost of the workload base. The productivity rate has not been changed from previous years even with the efficiencies achieved by the contractors in FY 1986. Medicare Administrative Reform Initiatives (MARI) will be used to enable the contractors to maintain the FY 1986 operating efficiencies in FY 1987. We expect to realize savings of approximately $12 million for MARI initiatives implemented in FY 1987. Examples of MARI initiatives include:

  - Allow contractors to issue a stop payment on benefit checks less than the $50 unless the cost of doing so would exceed the amount of the check.

  - Eliminate the return of hard copy drug bills and to announce an active campaign with a certain effective date drug bills will not be returned.

  - Change PPS intermediary/carrier data exchanges from monthly to quarterly.

  - Do not make payment on initial claims of less than $1.00.

  - Change duplicate checking functional standard.

  - Reduce the number of onsite EMC verification reviews.

- Claims payment includes $5.3 million for other ongoing costs such as parenteral/enteral claims, HMO audits, and Rural Health Clinic claims.

- Claims payment has been decreased for savings from EMC, an Industrial Engineering review of current claims processes, recompeting current contracts and systems upgrades.

B. In addition to claims payment expenses, Medicare contractors incur other costs that are related to the processing of claims. Some of the costs are incurred only by intermediaries, some are incurred only by carriers and some are incurred by both.

- Costs Incurred by Intermediaries Only

  Reimbursement ($23.8 million) - Prospective Payment System (PPS), contractors must establish reimbursement rates based on reasonable cost as required by law and regulations. For PPS providers, contractors must pay the applicable DRG rates in determining the reasonable costs of pass through expenses such as capital investments and medical training. Contractors are also responsible for establishing Periodic Interim Payments, as applicable, identifying and recovering overpayments, and maintaining working relationships with providers.

- Eliminate Favorable Waiver of Liability Presumption ($12.8 million) -This function funds the activity related to the planned implementation of the increased reconsideration costs resulting from the elimination of the favorable waiver of liability presumption for providers. Under these presumptions Medicare paid for services whenever a provider would be considered not to know, or have reason to know that certain services were not covered. To have the advantage of a favorable waiver of liability presumption a hospital or a home health agency (HHA) had to have an error rate (denial rates) of no more than 2.5 percent for hospitals and HHAs, and 5 percent for SNFs. The FY 1986 regulation proposal eliminates the denial rate criteria and establishes a case by case analysis of the circumstances in determining the provider's eligibility for program payments.

- Costs Incurred by Carriers Only

  Beneficiary Communications ($63.8 million) - The Medicare program is complex, based on many provisions required by law, regulations and policy dealing with entitlement, coverage of services and limitations on coverage, comprehensive payment rules, and the rights and responsibilities of beneficiaries. Since contractors are the direct link between beneficiaries and the program, this activity includes all costs related to beneficiary inquiries generated by means of telephone, correspondence, and walk-ins. The FY 1987 increment for this function is $6.8 million.

- Participating Physicians ($15.2 million) - Significant costs will be incurred for participating physicians whether or not the freeze is extended. Carriers will still be required to solicit participation agreements, provide EMC lines, continue to handle the additional inquiries, publish a directory of participating and non-participating physicians and publish a physician assignment rate list regardless of whether any additional program changes are made. The FY 1987 $4.0 million increase represents the inclusions of additional mailings to beneficiaries.

- Costs Incurred by All Contractors

  Hearings and Reconsiderations ($26.4 million) - This function includes all activities related to due process as a result of contractor disallowances of bills or claims. Beneficiaries, providers, and physicians are entitled under the law to request reconsiderations or formal reviews and hearings if they are dissatisfied with initial payment determinations made by contractors. Associated costs include all activities related to formalized hearings and appeals such as legal fees, recording fees, travel, and other incidental charges. The FY 1987 increment for this activity is $3.1 million. The increase is a result of increased workloads and inflation.

  Printing ($1.5 million) - In the interest of maintaining standard formats and quality of Medicare billing and report forms, HCFA supplies the forms used by beneficiaries and providers to file claims with Medicare Contractors. The use of these forms is essential to effective and efficient Contractor operations and other program purposes.

C. Experimental Fixed Price Contracts

Section 222 of Public Law 92-603 gives HCFA the authority to experiment with reimbursement to Medicare contractors for services rendered on other than a cost basis. The experimental contracts currently in force are in the fixed-price category. These contracts are awarded for a specific period of time and the total price changes only in terms of contract modifications.

IV. CONTINGENCY FUNDS

A contingency fund is normally requested to permit funding for workload or operating costs not anticipated at the time the budget is formulated. Examples of such costs are those needed to meet greater than budgeted increases in various workloads (claims, recosiderations/hearings, beneficiary and provider inquiries, etc.), unanticipated increase in the rate of inflation growth, legislative requirements and unanticipated changes. In FY 1987, HCFA is requesting a contingency fund of $50 million for the Medicare Contractor program. .

3. STATE CERTIFICATION (MEDICARE)

Authorizing Legislation - Social Security Act, Title XVIII, Section 1864.

	1986 Appropriation	1986 Available after Sequestering	1987	Increase or Decrease
Total Obligations	$ 51,684,000	$ 49,461,000	$ 57,000,000	$ +7,539,000
Less Trust Fund Transfer	-48,434,000	-46,351,000	-53,475,000	-7,124,000
Total Budget Authority	3,250,000	3,110,000	3,525,000	+415,000

Purpose and Method of Operation

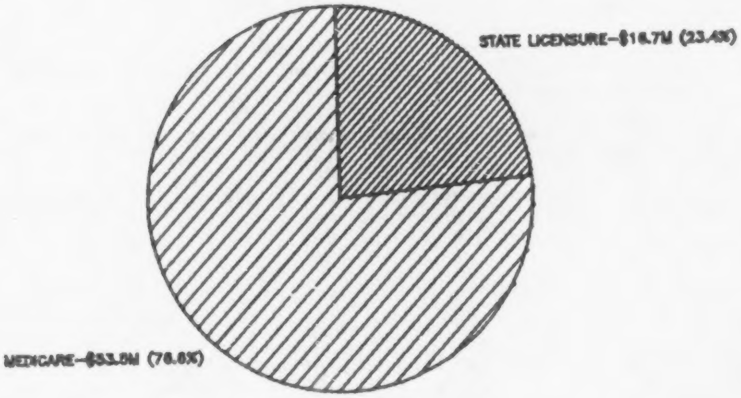
The purpose of the State Certification program is to ensure that institutions and agencies providing health care services to Medicare and Medicaid beneficiaries meet Federal standards for health quality and safety. The State administered Medicaid survey and certification program is also provided funding and oversight by the Health Care Financing Administration (HCFA). Federal financial participation for this activity is included in the Grants to States for Medicaid account.

The State Certification program has been in existence since 1966 and initially covered hospital inspections. With the growth of the health care industry since then (both in services and facilities), Medicare and Medicaid coverage has expanded to include numerous types of providers and suppliers. This increase in facilities has expanded program activity from inspection of a few thousand hospitals in 1966 to oversight of approximately 47,470 diverse health care facilities in FY 1987. As a result of implementation of the Prospective Payment System, expansion in both the number and type of participating facilities is expected to continue in the future, challenging Federal and State governments to become increasingly efficient and to ensure that facilities meet prescribed health and safety conditions. As part of this process, HCFA is committed to identifying facilities that are in noncompliance with health and safety conditions and to ensuring that corrections are made or, if necessary, terminating facilities from program participation. For example, the program has been successful in eliminating facilities that fail to maintain key physical plant and life safety standards. This virtually has eliminated multiple death fire disasters within certified long-term care facilities.

An annual agreement, budget and workplan are negotiated with each State licensure agency (generally within the State Health Department) to perform onsite health facility inspections in accordance with explicit Departmental regulations and HCFA instructions. Qualified State specialists survey institutions to determine eligibility for Medicare program participation and, based on findings, make certification recommendations to the appropriate HCFA regional office responsible for final determination regarding facility participation. If the surveyed facility is found to have deficiencies, a plan of correction is developed. The majority of facilities correct cited deficiencies, thus permitting continued program participation. Facilities that do not make necessary corrections within a prescribed amount of time are eliminated from the program. To ensure that States are conducting surveys in accordance with explicit criteria and instructions, Federal staff perform random monitoring surveys. Results are provided to States together with technical assistance to implement any recommended improvements to the survey process.

States submit detailed line item budgets each year for the estimated costs of performing survey activities. The budgets are negotiated with HCFA program and fiscal specialists and are driven by staffing requirements and associated salaries, fringe benefits, travel, training and indirect costs. HCFA requires States to submit quarterly cost and workload reports that are subject to Department of Health and Human Services audit by the Office of the Inspector General. Since State Licensure programs simultaneously benefit from survey efforts, States assume a share of total survey costs that averages approximately 23.4 percent. The following chart shows the proportion of program costs shared by State licensure programs for FY 1987.

SOURCE OF FUNDING FOR
TOTAL MEDICARE INSPECTION COSTS



Rationale for the Budget Request

The FY 1987 request is $57,000,000, an increase of $7,539,000 above the level of support proposed in FY 1986.

The increase of $7,539,000 is primarily attributable to:

- Utilizing the State and Local Purchasing Deflator for long-term care facilities which provides an inflation rate of 4.6 percent ($715,000).
- The FY 1987 request includes $2,083,000 for surveys that were deferred due to the FY 1986 sequestration action. The FY 1987 request increases coverage for HHAs (46 percent to 53 percent), ESRD facilities (50 percent to 57 percent) and Laboratories (50 percent to 60 percent).
- Program expansion for 1,260 new Medicare providers and suppliers ($1,277,000).
    - The FY 1986 appropriation would have allowed HCFA to survey 65 percent of all Medicare facilities. However, due to the impact of sequestration this level dropped to 61 percent in FY 1986.
    - This increase in funding would allow the surveys of new providers estimated to become Medicare eligible in FY 1987. This would maintain the 66 percent coverage level; if it were not provided, coverage levels would fall to 62 percent.
- Increasing hospital coverage in small rural hospitals from 50 percent to 75 percent ($1,485,000).
    - States have demonstrated a need for additional coverage and resources in this area to continue an aggressive program of surveying and terminating substandard facilities.
    - An inordinate number of deficiencies especially have been found in high risk rural hospitals.
    - The additional 375 surveys supported would build on this beginning by targeting additional surveys on high risk providers, such as small rural hospitals. These high risk hospitals would be surveyed, on average, every year while other hospitals would continue to be surveyed every two years, on average.
- Program expansion for 6,385 home health agency home visits ($1,564,000).
    - At the present time, the survey of HHAs does not include an actual visit to the home to discuss or observe the quality of care that is being provided to the patient.
    - The current survey process presently consists of the review of personnel and medical records. However, a recent review by the Bureau of Quality Control (BQC) indicated that there may be inadequate controls to ensure quality HHA services. In about 20 percent of the visits made by BQC, the health professionals are not completely aware of the patients' past and present medical condition. In 10-15 percent of the cases, there was not timely notification to the physicians of the patients' clinical condition.

- A home visit would allow examination of the patient in a treatment setting. This occurs presently with most types of facilities.

- A home health visit would ensure:

  -- HHAs comply with program requirements concerning the delivery of patient-care services (i.e., that paid services are in fact delivered and that they are at an acceptable level).

  -- Hospitals do not circumvent PPS by switching patients to hospital based HHAs.

o A $417,000 increase in FY 1987 contract support for a total of $3,525,000 for the following activities:

- $2,500,000 is required for the oversight of two special conditions (staffing and medical records) in the 470 psychiatric hospitals certified for participation in the Medicare/Medicaid programs. The contractor will be responsible for providing qualified mental health consultants, scheduling and conducting surveys, and providing expert technical assistance and consultation to providers, HCFA RO staff, and State agencies.

- $200,000 to assist HCFA in the oversight of laboratories in the highly specialized area of cytology testing. A major problem in the survey of cytology laboratories is that, generally, State surveyors are neither trained nor qualified in the area of cytology.

- $600,000 to develop an outcome-oriented survey process for other facility types, e.g., ESRD. HCFA has implemented a patient care assessment tool in Skilled Nursing Facilities and Intermediate Care Facilities and believes that other facility types would benefit from a similar survey process. This contract will assist HCFA in developing a revised survey process for these facility types.

- $25,000 to establish a computer assisted training program to interface with the Integrated Surveyor Training program. A computer assisted program will offer a training program that can be individualized to each surveyor's needs while providing a cost and time savings to both State and Federal governments.

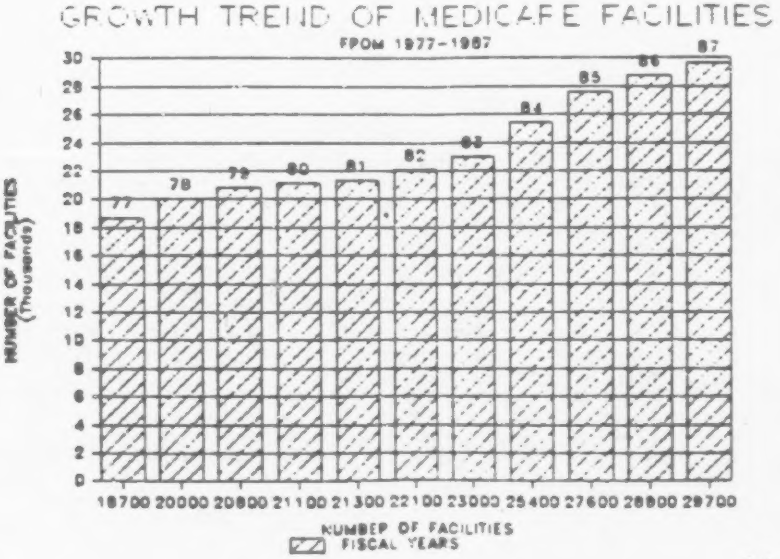
- $200,000 to establish a system that ensures that surveyors who evaluate health and safety conditions in health facilities are qualified to do so and are regarded as experts in their fields. Such a system would allow HCFA to evaluate the current credentials of all surveyors and attest to their competence to participate in the survey and certification process.

The $57,000,000 requested will support an acceptable level of survey coverage for each facility type, including initial surveys of new facilities requesting program participation and necessary complaint and/or followup visits for those currently certified. To accomplish this workload, States will require 560 non long-term care and 415 long-term care staff persons.

The requested level of funding provides survey coverage for approximately 66 percent of facilities participating in the Medicare program. An annual survey has been budgeted for each long-term care facility to ensure that these providers comply with program standards. This plan supports HCFA's commitment to the Congress to await recommendations of a study by the National Academy of Sciences that evaluates the long-term care certification process (to be completed by February 28, 1986) prior to determining if an alternative survey frequency should be implemented for such facilities. Remaining non long-term care facilities are on flexible survey cycles depending on their past compliance history.

Funds budgeted in FY 1987 will ensure that facilities having deficiencies on previous surveys will receive appropriate follow-up. Traditionally, 78 percent of all facilities receive complaint investigations and/or onsite follow-up surveys to ensure cited deficiencies have been corrected. In addition to the onsite surveys, each long-term facility receives on an average 1.75 additional visits while each non long-term care facility receives an average of .4 additional visits per annum. Remaining funds will be used for surveying facilities with less severe deficiencies and those with a good compliance history. In addition, inspection costs for Skilled Nursing Facilities that participate in both Medicare and Medicaid programs are shared equally between the two programs.

The following chart displays the growth trend of Medicare facilities from 1977 through 1987.



Major Program Savings Initiatives

Numerous program savings initiatives have been implemented that are in step with the Administration's desire to involve States and the private sector. These initiatives have generated significant reductions in program costs without compromising HCFA's authority and administrative responsibility. The most notable of these initiatives and concomitant FY 1987 savings are outlined below.

Federal/State Partnership - Recognizing that the same State survey agency simultaneously inspects for both State licensure conditions and Federal Medicare conditions, HCFA requires the States to share equally in the cost of inspection for those conditions that are required by both programs. The current negotiated percentages average 23.4 percent of total costs. The FY 1987 savings to the Medicare program is estimated to be $16,684,000.

Less Frequent than Annual Surveys - To maximize use of resources and reduce the inspection burden on those facilities with a good compliance history, HCFA has implemented flexible survey cycles for inspecting non long-term care facilities. Facilities are surveyed on a one or two year survey cycle depending on past performance. In FY 1987, the less frequent than annual survey initiative for non long-term care facilities will save approximately $22,946,000.

Sharing of Survey Costs for Title XVIII/XIX SNFs - To eliminate the duplication inherent in the surveys conducted in SNFs that participate in both the Medicare and Medicaid programs, HCFA requires that one survey be completed that meets the requirements of both programs. The cost of surveying XVIII/XIX SNFs are shared equally between the two programs. The savings to the Medicare program for FY 1987 is estimated to be $19,351,000.

Deeming - The budget for FY 1987 reflects an estimated $16,215,000 savings to the program from the deeming of approximately 5,080 (at 50 percent coverage) hospitals accredited by the Joint Commission on Accreditation of Hospitals. While HCFA is currently exploring the use of other accrediting organizations, we cannot project which organizations will be given deemed status and the subsequent cost savings. Before granting deemed status, an accrediting organization must request recognition of its accreditation program for deeming purposes. After receiving such a request, HCFA evaluates the organization's standards and its method of operation to determine whether accreditation by the organization is sufficient assurance of compliance with Medicare requirements. This evaluation process is very lengthy, requiring extensive, indepth reviews and involves reviews by various components within the Administration and the Congress together with the private sector.

Major Program Enhancement Initiatives

The State Certification program is continuously improved through the following program enhancement initiatives:

HCFA will aggressively enforce compliance of quality-of-care standards and ensure corrections are made and terminate facilities from program participation if necessary. The majority of facilities correct the deficiencies, thus permitting continued program participation. However, some facilities that cannot or refuse to take corrective action to meet minimum Federal requirements might still participate if surveys were not carried out and certification standards were not required (i.e., providing services under life threatening conditions while receiving Federal reimbursement). Therefore, it is necessary to process termination actions against such facilities, and in FY 1984, HCFA terminated 865 facilities.

HCFA is working toward national implementation of intermediate sanctions. Medicare payments will be denied to a long-term care facility for new admissions, in lieu of termination, if it is determined that the facility does not meet one or more conditions of participation and the facility's deficiencies pose no immediate jeopardy to patients' health and safety.

HCFA will continue to analyze and implement revisions to survey report forms together with modifications to improve the actual onsite survey process. These changes are designed to provide more specific and valid/reliable documentation of surveyors' observations in areas where conditions of participation have not been met. Such documentation will provide stronger support to enforce corrective action and, in more serious instances, initiate termination procedures.

HCFA has launched a new quality initiative for nursing home services to allow surveyors to evaluate a facility based on patient care outcomes rather than the facility's capacity to provide services. Compliance decisions for specific conditions are based on the surveyor's observation of the patient's physical condition, actual care rendered to the patient, patient interview, and medical record review. This Patient Care and Services initiative will be implemented in FY 1986. HCFA plans to conduct a major evaluation of State application of the form and implement improvements as necessary.

HCFA is also expanding the survey and certification process for home health agencies to include home visits. These home visits will ensure that home health agencies comply with program requirements concerning the delivery of patient care services. The present survey process for home health agencies primarily consists of the review of personnel and medical records. Funds have been provided for this activity beginning in FY 1987.

Congressional concern over the quality of care provided in psychiatric hospitals has prompted HCFA to reevaluate the level of effort devoted to the survey of these providers. In FY 1987 HCFA plans to increase its oversight responsibility of the two special conditions in the estimated 470 psychiatric hospitals to 100 percent survey coverage conducted by psychiatric consultants together with random monitoring surveys by HCFA regional staff. Funds have been excluded from the trust fund requirements of this budget request since State involvement in this area will be eliminated.

HCFA is exploring the issue of expanding deeming and is considering several requests to recognize the decisions of national accrediting bodies in determining whether providers and suppliers of health care services meet the requirements for Medicare participation. HCFA is developing a review mechanism to deal equitably with all requests for recognition. HCFA will also develop validation procedures specific for each type of provider granted deemed status.

HCFA is developing regulations and guidelines that will streamline, and improve the quality of facility surveys and patient care reviews through less frequent than annual reviews, patient sampling, focused facility reviews, etc. These actions will promote the Administration's goal to maintain an adequate level of beneficiary care in a safe and sanitary environment yet reduce the burden from unnecessary inspections of those providers and suppliers with a history of compliance. Increased emphasis has been placed on taking termination and/or disallowances against poor quality facilities as a result of the Secretary's use of look-behind authority under Medicaid. This authority ensures that when inadequate State reviews have been conducted, the Federal government will intervene to ensure beneficiaries receive quality care in a safe and sanitary environment.

HCFA is exploring ways of increasing survey efficiency at the State level. Seventy percent of all costs are surveyor salary/fringe benefits mandated by State civil service schedules and are essentially uncontrollable. Therefore, HCFA will experiment with revised survey methodologies to reduce manpower required to conduct surveys. Specifically, we propose to implement outcome oriented surveys for most facility types to reduce paperwork; to encourage surveyor use of computers to eliminate tedious manual entries on survey forms; and to build in consistency in State survey team composition. In addition, HCFA has implemented a computerized tracking system to capture and maintain information in State agency budgets, expenditures and workload activities. This system will promote region to region consistency in negotiating State requirements (unit costs) and improve tracking of accomplished workload from State to State to ensure that mandated coverage levels are met. Beginning with the FY 1986 budget cycle, HCFA has implemented a program of mandated coverage levels, and under current law, when it is determined that States are unable or unwilling to conduct such workload, it will be accomplished by other entities such as private contractors, accrediting organizations, and other medical groups having surveyor disciplines.

STATE CERTIFICATION WORKLOAD FUNDING REQUIREMENTS
(Budget Column in Thousands)

	FY 1985							FY 1986 Appropriation						
	# Facil-ities	# Sur-veys	% Cov-erage	Unit Cost	# Followup/ Complaint	Unit Cost	Bud-get	# Facil-ities	# Sur-veys	% Cov-erage	Unit Cost	# Followup/ Complaint	Unit Cost	Bud-get
Medicare														
SNF XVIII	355	355	100%	$3,500	620	$1,155	$1,960	365	365	100%	$3,665	640	$1,220	$2,119
SNF XVIII/XIX	5,880	5,880	100	3,500	10,290	1,155	16,229	6,130	6,130	100	3,665	10,730	1,220	17,779
Hospital (Non-Accr.)	1,500	750	50	5,250	600	1,750	4,988	1,500	750	50	5,495	600	1,830	5,219
HHA	5,345	2,830	53	2,230	2,140	740	7,895	5,865	3,110	53	2,335	2,345	775	9,079
ESRD	1,350	770	57	2,230	540	740	2,117	1,400	800	57	2,335	560	775	2,302
Lab	3,925	2,355	60	2,230	1,575	740	6,417	4,005	2,405	60	2,335	1,600	775	6,856
Hospice	210	210	100	2,230	85	740	531	215	215	100	2,335	85	775	568
Other	3,845	2,600	67	2,230	1,540	740	6,937	4,035	1,395	35	2,335	1,615	775	4,512
TOTAL	22,410	15,750	70%	$2,875	17,390	$1,035	$47,074	23,515	15,170	65%	$3,060	18,175	$1,090	$48,434

	FY 1986 Gramm-Rudman-Hollings							FY 1987						
	# Facil-ities	# Sur-veys	% Cov-erage	Unit Cost	# Followup/ Complaint	Unit Cost	Bud-get	# Facil-ities	# Sur-veys	% Cov-erage	Unit Cost	6/ # Followup/ Complaint	Unit Cost 6/	Bud-get
Medicare														
SNF XVIII	365	365	100%	$3,665	640	$1,220	$2,119	375	375	100%	$3,835	655	$1,275	$2,273
SNF XVIII/XIX	6,130	6,130	100	3,665	10,730	1,220	17,779	6,380	6,380	100	3,835	11,165	1,275	19,351
Hospital (Non-Accr.)	1,500	750	50	5,495	600	1,830	5,219	1,500	1,125	75	4,795 5/	600	1,465	6,273
HHA	5,865	2,720	46	2,335	2,345	775	8,163	6,385	3,385	53	2,335	2,555	775	9,884
ESRD	1,400	700	50	2,335	560	775	2,069	1,450	825	57	2,335	580	775	2,376
Lab	4,005	2,005	50	2,335	1,600	775	5,922	4,085	2,450	60	2,335	1,635	775	6,988
Hospice 4/	215	215	100	2,335	85	775	568	--	--	--	--	--	--	--
Other	4,035	1,395	35	2,335	1,615	775	4,512	4,225	1,480	33	2,335	1,690	775	4,766
TOTAL	23,515	14,280	61%	$3,060	18,175	$1,090	$46,351	24,400	16,020	66%	$3,180	18,880	$1,130	$51,911
Home Health Visits								1,275 2/	6,385 3/	100%	245	N/A	N/A	$1,564
														$53,475

Computation per type of Facility: (Total Facilities x Coverage x Unit Cost) & (Followup/Complaint x Unit Cost) = Budget 1/

1/ SNF XVIII/XIX facilities use the same computation. However, Medicare's share is 50 percent of the total cost, and Medicaid's share is 50 percent of the total cost.
2/ Represents 20 percent sampling of total HHAs
3/ Each HHA sampled receives 5 home visits.
4/ Hospice benefit expires September 30, 1986.
5/ Hospital unit cost is reduced due to HCFA consultants surveying two special conditions in psychiatric hospitals.
6/ Assumes passage of legislative and regulatory initiatives to reduce inordinately high unit costs in certain States due to high salary, travel, indirect costs, etc.

STATE CERTIFICATION
PARTICIPATING MEDICARE/MEDICAID HEALTH CARE FACILITIES

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991
MEDICARE									
Hospitals	6,615	6,710	6,695	6,735	6,775	6,815	6,855	6,895	6,935
(Non-Accredited)	(1,550)	(1,560)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
(Psychiatric)	(420)	(435)	(450)	(460)	(470)	(480)	(490)	(500)	(510)
SNFs (XVIII only)	275	285	355	365	375	385	395	405	415
SNFs (XVIII/XIX)	5,255	5,505	5,880	6,130	6,380	6,630	6,880	7,130	7,380
Home Health Agencies	3,670	4,280	5,345	5,865	6,385	6,905	7,425	7,945	8,465
Independent Laboratories	3,660	3,740	3,925	4,005	4,085	4,165	4,245	4,325	4,405
End-Stage Renal Disease	1,200	1,210	1,350	1,400	1,450	1,500	1,550	1,600	1,650
Portable X-Ray	260	265	285	300	315	330	345	360	375
Outpatient Physical/Speech Therapy	635	715	835	915	995	1,075	1,155	1,235	1,315
Rural Health Clinics	420	420	435	445	455	465	475	485	495
Independent Practicing Physical Therapist	1,775	1,910	1,975	2,005	2,035	2,065	2,095	2,125	2,155
Ambulatory Surgical Centers	50	150	255	305	355	405	455	505	555
Comprehensive Outpatient Rehabilitation Facilities	50	55	60	65	70	75	80	85	90
Hospices	-	115	210	215	-	-	-	-	-
SUBTOTAL	23,865	25,360	27,605	28,750	29,675	30,815	31,955	33,095	34,235
MEDICAID									
SNFs (XIX only)	2,495	2,485	2,410	2,320	2,320	2,320	2,320	2,320	2,320
ICFs	11,325	11,460	11,585	11,655	11,725	11,795	11,865	11,935	12,005
ICFs/Mentally Retarded	1,540	2,100	2,650	3,200	3,750	4,300	4,850	5,400	5,950
SUBTOTAL	15,360	16,045	16,645	17,175	17,795	18,415	19,035	19,655	20,275
TOTAL MEDICARE/MEDICAID	39,225	41,405	44,250	45,925	47,470	49,230	50,990	52,750	54,510

4. END-STAGE RENAL DISEASE (ESRD) NETWORK COORDINATING COUNCILS

Authorizing Legislation - Social Security Act, Title XVIII, Section 1881.

	1986 Appropriation	1986 Available after Sequestering	1987	Increase or Decrease
Total Obligations	$ 4,837,000	$ 4,629,000	$ 1,000,000	$ -3,629,000
Less Trust Fund Transfer	-4,837,000	-4,629,000	-1,000,000	-3,629,000
Total Budget Authority	$ ---	$ ---	$ ---	$ ---

Purpose and Method of Operations

Section 1881 of the Social Security Act authorizes the Secretary to establish and support End-Stage Renal Disease (ESRD) network areas and network organizations financed from the Medicare Trust Funds. Concern over the efficacy of new medical technology and the limited number of treatment facilities led to the establishment of a mechanism to promote quality assurance and the effective and efficient utilization of resources in the delivery of services to ESRD patients.

To accomplish these goals, the Secretary initially established 32 ESRD Network Coordinating Councils which focus the majority of their efforts in the following areas: (1) quality of care activities; (2) ESRD program studies and initiatives to identify and resolve problems; (3) provision of data for facility approval; and (4) provision of patient-specific data.

Each of the Network Coordinating Councils (NCCs) has a Medical Review Board, an executive committee, and a staff responsible for the administrative and fiscal management of Council activities. The Medical Review Board is composed of voluntary members, which include one representative from each area dialysis and transplant facility as well as at-large members representing ESRD patients and other social, medical, or technical disciplines involved in the delivery of care.

An annual agreement is negotiated with each Council that outlines its responsibility with regard to administration of Council objectives. Councils submit detailed budgets for estimated annual costs that are subject to Federal approval. NCC cost reports are submitted on a quarterly basis and are subject to audit by the Department's Office of the Inspector General.

In 1986, HCFA will continue to support the Councils while simultaneously seeking more effective methods to carry out the networks' appropriate goals. Regulations are being finalized for a Notice of Proposed Rulemaking that would remove the requirements for formal rulemaking as the method of changing the designation of ESRD network areas. The proposed regulation would establish a mechanism that would permit network areas to be redesignated administratively.

Rationale For the Budget Request

The FY 1987 request of $1,000,000 will support two Councils. HCFA plans to award funds through contracts or competitive cooperative agreements for these Councils. Reducing the number of network organizations from the current 32 will make the program more efficient, facilitate the monitoring and evaluation of network performance by HCFA, and achieve greater uniformity in the services provided by the Councils.

The requested funding for FY 1987 will support the statutorily mandated activities specified in Section 1881(c)(2) of the Social Security Act, as amended. While this strategy has been drafted in an attempt to better manage this program, HCFA continues to support elimination of the Councils and, concomitant with this budget submission, has forwarded a legislative proposal to abolish them.

5. ADMINISTRATIVE COSTS

Authorizing Legislation - Reorganization Act of 1953

	1986 Appropriation	1986 Available after Sequestering	1987	Increase or Decrease
Total Obligations	$215,068,000 1/	$205,820,000	$215,177,000	$+9,357,000
Less Trust Fund Transfer	-144,898,000	-138,670,000	-144,169,000	-5,499,000
Unobligated Authority	-113,000	-113,000	---	-113,000
Total Budget Authority	$ 70,283,000	$ 67,263,000	$ 71,008,000	$ 3,745,000
Total FTEs	3,900	3,881	3,757	-124

Purpose and Method of Operation

The Administrative Costs budget activity provides the necessary operating funds to enable the Health Care Financing Administration (HCFA) to carry out its program responsibilities. These responsibilities include managing the Medicare and Medicaid programs, coordinating Federal survey and certification efforts, and directing a variety of activities to assure quality health care. In FY 1987, the Medicare and Medicaid programs will account for over $107 billion of the Federal budget and will serve over 52 million Americans.

HCFA staff is continually working toward improving the delivery of health care services provided through the Agency's programs. In FY 1987, HCFA staff will continue to build on initiatives to: (1) reduce unnecessary regulatory and administrative burdens, (2) promote competition in the health care industry, (3) implement Medicare program modifications designed to improve the quality of care, and (4) reduce program costs.

Because the Administrative Costs budget activity provides for the operating expenses in support of the administration of the Medicare and Medicaid programs, the funds for this activity are provided through the appropriation of general Treasury funds and transfers from the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

1/ This amount reflects withholding $229,000 from obligation as directed by Section 515 of the conference version of the Treasury-Postal Service, and General Government Appropriation Act of 1986, included by reference in the full-year Continuing Resolution for 1986 (P.L. 99-190).

Rationale for the Budget Request

The FY 1987 budget request for Administrative Costs is $215,177,000. This amount provides a level of funding that is essentially consistent with the FY 1986 appropriation.

In building the FY 1987 budget, all non-recurring costs were eliminated and inflation was absorbed. Major increases include $3,000,000 to fund HCFA's share of the joint HCFA/Social Security Administration (SSA) telephone switching system, $671,000 for additional machine repair, maintenance, supplies and telecommunication costs resulting from additional ADP equipment scheduled to be used throughout the Agency in FY 1987, and $275,000 associated with the administrative responsibility for State Medicaid Fraud Control Units. In addition, the FY 1987 budget request restores the reductions that were required as a result of the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

These increases are offset by savings associated with the decrease of 143 full-time equivalents.

Personnel Compensation and Benefits

Included in the FY 1987 budget request is $155,591,000 to fund 3,757 full-time equivalents (FTEs). This amount reflects a decrease of 124 FTEs from FY 1986. Savings attributed to the FTE reduction are somewhat offset by the increased costs associated with mandatory within-grade increases and the one additional work day in FY 1987.

In FY 1986, the Agency funded an FTE level of 3,881 as a result of funding reductions imposed by the Balanced Budget and Emergency Deficit Control Act of 1985. The FY 1987 budget request reflects a decrease in staff of 124 full-time equivalents from the FY 1986 operating level. HCFA will reduce staffing resources through attrition, thus resulting in no adverse impact on HCFA staff. Staffing resources will be internally reallocated by selectively choosing which vacancies will be filled. This staff reduction will not affect HCFA's ability to use the Secretary's "look behind" authority to continue reviewing Intermediate Care Facilities for the Mentally Retarded to assure that these facilities are in compliance with Medicaid standards and conditions of participation.

Included in this request is $275,000 to fund the administration of State Medicaid Fraud Control Units. The responsibility for implementing this program originally resided in HCFA. In FY 1979, however, administrative responsibility for this program was transferred to the Office of the Inspector General. In conjunction with the centralization of the Medicaid Program, the Administration proposes that the functional management and oversight for the State Medicaid Fraud Control Unit program be returned to HCFA.

Rent, Communications and Utilities

Included in the FY 1987 budget request is $21,155,000 to fund rent, communications, and utility costs. This amount is essentially consistent with the FY 1986 appropriation with the exception of the following items.

The FY 1987 budget request includes $3,000,000 to reimburse SSA for HCFA's share of a telephone switching system that is scheduled to be implemented in January 1987. The telephone switching system is a result of a joint SSA/HCFA initiative to integrate telecommunication requirements at the Woodlawn, Maryland complex into a single voice/data switching system. HCFA's share of the switching system covers the cost of installation as well as service for a 10-year period. The capabilities provided by the switching system are currently leased by HCFA at a cost of approximately $500,000 per year. The acquisition of the switching system will eliminate future rental payments as well as provide certain telecommunication enhancements that are currently not available.

HCFA has placed significant emphasis on increased uses of Automated Data Processing (ADP) equipment as a means to achieve the productivity gains that are necessary to offset staff losses. In recent years, the Agency has purchased a considerable number of microcomputers, word processors, and other ADP equipment. As this equipment is installed, additional costs must be incurred to properly support the telecommunication links between the various data systems. We anticipate that the Agency will require an additional $205,000 for telecommunication costs as a result of the additional computer equipment to be used throughout the Agency in FY 1987.

Included in the FY 1987 budget request is an additional $603,000 to fund anticipated mandatory rate increases in telephone and postage rates. These increases are partially offset by an estimated $532,000 in rent decreases attributed to the Agency's space reduction policy.

Other Object Classes

All other object classes, for the most part, will be funded in FY 1987 at levels consistent with the FY 1986 appropriation. Accordingly, the FY 1987 budget request restores the reductions that were required as a result of the Balanced Budget and Emergency Deficit Control Act of 1985. These reductions lowered funding levels for these object classes substantially below funding levels of previous fiscal years. Restoring these object classes to levels consistent with the FY 1986 appropriation will provide the Agency with sufficient funds to effectively and efficiently accomplish its program objectives.

As noted earlier, the Agency has purchased a considerable number of microcomputers, word processors, and other ADP equipment. Without adequate maintenance of the new equipment, desired results will not be achieved. We anticipate that the Agency will require an additional $300,000 for maintenance and machine repair costs related to this additional equipment. Additional ADP supplies, such as disks, ribbons, cables, and manuals will also be needed. We anticipate that the Agency will require an additional $166,000 for ADP-related supplies. These increases are in addition to the restorations discussed in the preceding paragraph.

ADMINISTRATIVE COSTS

Summary of Changes

	1986 Base		Change from Base	
	FTE	Amount	FTE	Amount
Increases:				
Built-In				
1. Within Grade Increase		$158,458,000		$ +1,504,000
2. One Additional Day		$158,458,000		$ +582,000
3. Communication, utilities and miscellaneous charges		$ 7,257,000		$ +603,000
Subtotal				$ +2,689,000
Program				
1. Telephone Switching System		$ 7,257,000		$ +3,000,000
2. Rental Payments to Others		$ 605,000		$ +205,000
3. Other Services		$ 19,537,000		$ +300,000
4. Supplies and Material		$ 1,023,000		$ +166,000
5. Restoration of funds resulting from the Balance Budget and Emergency Deficit Control Act of 1985				$ +8,483,000
Subtotal				$+12,154,000
Decreases:				
1. Reduction of 124 FTEs	3,881	$158,458,000	124	$ -4,954,000
2. Rental Payments to GSA		$ 10,012,000		$ -532,000
Subtotal				$ -5,486,000
Net Change			-124	$ +9,357,000

FUNCTIONAL HIGHLIGHTS AND ACCOMPLISHMENTS

1. PROGRAM ADMINISTRATION

This function, much of which is mandated by law, encompasses an assortment of responsibilities involved in the administration of the Medicare program and oversight of the Medicaid program. Specific activities include:

Medicare

- Development, negotiation, maintenance and modification of primary contracts with intermediaries and carriers, including those awarded on an experimental basis.
- Monitoring and evaluation of Medicare contractors' performance in carrying out statutory and contractual responsibilities.
- Development and maintenance of a comprehensive program to contract with and make payments to Group Health Plans and Health Maintenance Organizations for provision of services.
- Review of provider requests for exceptions to reimbursement limits (e.g., Section 223 cost limits, End Stage Renal Disease (ESRD) composite rates).
- Proceedings of the Provider Reimbursement Review Board (PRRB) which reviews appeals submitted by Medicare providers under Section 1878 of the Social Security Act. PRRB hearings serve as the initial step in the judicial review process to settle cost reimbursement disputes between an intermediary and a provider.
- Review of PRRB decisions by the Attorney Advisor to: (1) ensure compliance with all applicable laws, regulations and policy issues; and (2) recommend decisions under "own motion" review.
- Review of Part B appeals process to assure that due process requirements are fully met.
- Administer subcontracting initiatives with small and disadvantaged businesses to enhance competition in subcontracting.

Medicaid

- Review and approval of State Medicaid Plans to ensure compliance with Federal laws and statutes.
- Review and evaluation of each State's administration of Medicaid responsibilities.
- Identification of deficiencies in State Medicaid Plans so that corrective action can be taken.
- Review of requests for State Medicaid Plan amendments and waivers of certain program requirements in order to help States gain greater flexibility in administering the Medicaid program.

Major Highlights/Significant Accomplishments

- Prepared and released GROUPER changes to recalculate DRG weights. Awarded contract to maintain GROUPER. Issued three updates to the PRICER package and prepared a fourth.
- In FY 1985, HCFA administered 91 carrier and intermediary contracts.
- HCFA achieved its target of 554,518 risk/cost enrollees and awarded 67 risk contracts.
- In FY 1985, the PRRB conducted 86 hearings/prehearings and rendered 116 decisions; the Attorney Advisor conducted final Agency review of all PRRB decisions and also prepared about 160 court actions.
- In FY 1985, HCFA processed 540 State plan amendment requests, 418 waiver and waiver modification requests, and reviewed 16 decisions resulting from State Medicaid plan amendment reconsideration hearings.
- In FY 1985, HCFA processed approximately 400 provider exception requests including about 101 ESRD exception requests.
- In FY 1985, HCFA conducted comprehensive performance evaluations of 120 Medicare contractors and evaluated critical areas of performance in 50 State agencies.
- Sections of the Deficit Reduction Act of 1984 were implemented which required that clinical diagnostic laboratory services performed by independent clinical laboratories, physician offices, and hospitals be reimbursed under a fee schedule; required the establishment of a registry to monitor pacemakers; and strengthened HCFA's authority to recoup Medicare payments for expenses payable by other insurers.
- The Prospective Payment System (PPS) for Medicare hospital services was implemented on October 1, 1983. In FY 1985, HCFA promulgated a final notice and regulations updating the prospective payment rates for FY 1986 in accordance with provisions of the Social Security Amendments of 1983 and the Deficit Reduction Act of 1984.
- Changes in reimbursement for laboratory services were implemented on July 1, 1984. A fee schedule is used for reimbursing laboratory services performed by physicians, independent laboratories, and hospital outpatient departments. In addition, independent laboratories must bill the Medicare program directly and accept assignment; there is no deductible for coinsurance for independent or hospital outpatient laboratory services.
- A participation program was implemented on October 1, 1984. Physicians and suppliers who participate agree to accept assignment in all cases. HCFA also implemented a program to monitor charges of non-participating physicians; non-participating physicians are prohibited from raising fees during a 15-month period beginning July 1, 1984.

- In FY 1985, Medicare contractors achieved estimated savings of $750 million as a result of increased activities in Medicare Secondary Payer operations. Contractors established MSP staff through a separate program safeguard budget line of $27 million and had a cost benefit ratio of $1:29.

- HCFA arranged for the transfer of 1,100 providers from the Office of Direct Reimbursement (ODR) to other contractors and reassigned the ODR employees throughout HCFA to best utilize their extensive operational experience.

FY 1986/1987 Initiatives

- Conduct a demonstration project with three Regional Offices to run concurrently with the ongoing Part B Quality Assurance (QA) program. The design will focus on the identification of high-dollar, high-risk situations. If appropriate, Part B QA emphasis will shift to in-depth reviews in national and regional problematic areas in FY 1987.

- Conduct a study to validate the accuracy of Part B error rate data in FY 1986.

- Evaluate carrier/intermediary performance in identifying and processing claims/bills with potential Medicare Secondary Payer (MSP) involvement. If appropriate, design and implement evaluative program for MSP for Part A and Part B. This effort will complement and bolster HCFA's initiatives to assure MSP payment integrity.

- Redesign Medicaid Eligibility Quality Control (MEQC) system to provide targeting of resources on error-prone areas.

- Redesign Utilization Control (UC) program to provide an increased emphasis on quality care of long-term-stay patients.

- In FY 1986, a PPS Settlement Review program is scheduled for implementation and will evaluate the adequacy of contractor's first year PPS settlement and audit activity.

- In FY 1986 HCFA will initiate limited scope audits of hospital cost reports submitted under the first year of the prospective payment system in order to obtain accurate data for updating the hospital wage index, a key variable of the system.

- Planned for FY 1987 is a comprehensive review program to monitor the audit and settlement activity of small Medicare providers; e.g., SNFs, CORFs, OPPTs, QSCs, etc.

- Issuance of an Ambulatory Surgical Center (ASC) survey form to collect charge and cost data from approximately 475 ASCs. The data will be used to update the payment rates made to ASCs for outpatient surgical procedures.

- To meet HCFA's need for audited prospective payment system (PPS) cost report data, a special audit of the first-year PPS cost reports will be conducted. A sample of 1,200 first-year PPS cost reports will be audited and will provide data for numerous HCFA initiatives including disproportionate share, Medicare malpractice, capital costs, and other current reimbursement issues.

2. MEDICARE/MEDICAID FINANCIAL OPERATIONS

HCFA oversees the financial mechanisms in the Medicare/Medicaid programs in order to identify and curtail waste and abuse. Specific activities include:

- Preparation of the national budget to finance Medicare contractor activities; review and approval of individual contractor budgets and budget amendments.

- Monitoring of each Medicare contractor's financial operations, including review of expenditure plans, interim expenditure reports, final administrative cost proposals, banking agreements, subcontracts and leases.

- Ongoing review of each State's Medicaid operations, including quarterly budget forecasts and quarterly expenditure reports.

- Review of Medicare contractor and State Medicaid Agency implementation of institutional reimbursement policies to assure that providers claim only the proper amount for services rendered.

- Coordination of the clearance and resolution process for Office of the Inspector General Audit Agency (OIGAA) audits of Medicare intermediaries, carriers, State Medicaid Agencies, State Survey Agencies, Professional Standards Review Organization (PSROs)/Peer Review Organizations (PROs), and ESRD networks.

- Development of statistics/estimates on administrative costs of Medicare contractor/State Medicaid Agency operations.

- Monitor contractor audit performance (audit costs and recoveries) to maximize the effectiveness of audit funds invested. Maintained an ongoing return of $5 for each $1 spent on provider audit.

- Conduct of disallowance activities resulting from external audits, HCFA audits, Medicaid Eligibility Quality Control, utilization review, and section 1122 denials.

- Monitoring of Medicare contractor/State Medicaid Agency activities in the areas of overpayment identification and recovery; and the processing of uncollectable overpayments, all beneficiary overpayments, and reconsideration claims and hearings.

Major Highlights/Significant Accomplishments

- In FY 1985, HCFA implemented the Program Administration to Reduce Overpayments & Losses (PATROL) project designed to isolate causes of significant program dollar losses in Medicare and Medicaid and stimulate the policy and procedural changes needed to reduce these losses.

Medicare

- It is estimated that FY 1985 overpayment recoveries were approximately $1.2 billion. (In FY 1984, HCFA assessed $9.7 million in interest on Part A and B overpayments, of which $8.9 million (92 percent) was collected.)

- In FY 1985, HCFA processed 2,927 contractor financial documents including intermediary and carrier budgets and cost reports for the Medicare program.

- In FY 1985, HCFA continued to increase emphasis on reducing Medicare contractor costs by closely analyzing those with high costs, implementing cost/burden reduction initiatives and upgrading EDP systems.

- In FY 1985, HCFA continued to increase emphasis on the payment safeguard activities of Medicare contractors (medical/utilization review and provider audit) to insure comprehensive oversight of benefit amounts paid and maximization of savings.

- During FY 1983, HCFA developed prescriptive audit protocols to address major areas which should be reviewed in all base period audits. The success of this effort has been demonstrated by the cost-effectiveness of our base period audits (in excess of 11 to 1). Therefore, more prescriptive audit guides were developed for TEFRA and PPS audits for application in FY 1985 and FY 1986.

- In FY 1985, HCFA processed 13,530 uncollectable beneficiary overpayments and identified 23,277 Medicare provider/supplier overpayments.

- In FY 1985, HCFA converted the first of the Medicare contractor workload reports to a system of direct electronic input from Medicare contractors.

Medicaid

- In FY 1985, HCFA reviewed about 548 Medicaid budget and expenditure reports.

- Every quarter, Medicaid grant awards are prepared and issued to 57 States and territories. Each grant award provides funding for the current quarter, and applies all adjustments applicable to the last quarter. Separate grant awards are issued to reflect various types of reductions.

- HCFA will continue efforts, started in FY 1984, for automating the Medicaid grants/expenditures data. Automation will greatly facilitate tracking and control over obligations and various types of reductions.

- HCFA prepared and issued to its regional offices a series of Medicaid financial review guides which, in each instance, lay out the pertinent law, regulations and policy, and provide detailed financial audit steps to be followed in reviewing State reimbursement claims.
- During FY 1985, HCFA processed 81 disallowances totaling $310.1 million.
- HCFA commented on 30 regional office approval/disapproval matters involving title XIX FFP.

External Audits

- During 1985, 205 audits with recommended disallowances of approximately $72 million were processed.

3. MEDICARE/MEDICAID AGENT PERFORMANCE ASSESSMENT

The assessment of Medicare and Medicaid program agent performance provides for financial and programmatic accountability in these two programs; results in the identification and resolution of specific problem areas; and improves program efficiency through the reduction of erroneous program payments. Specific activities include:

- Performance evaluations of the Medicare contractors and State Medicaid Agencies and the publication of results of these evaluations which are used to identify erroneous payment trends, develop corrective action strategies, and identify exemplary practices.
- Recommendations of (1) renewal or termination of individual Medicare contractors; and (2) sanctions or adverse actions against State Medicaid Agencies or Medicare fiscal agents resulting from failure to meet performance criteria in various operational areas.
- Evaluation of Medicare contractor and State Medicaid Agency programmatic ADP systems.
- Identification of program policies and instructions that require clarification or modification.

Major Highlights/Significant Accomplishments

Medicare

- Instructions for preparation of Annual Contractor Evaluation Reports (ACER) were modified to assure that these reports thoroughly highlighted significant performance areas and would be the basic document for contract management decisions.

- In FY 1985, HCFA reviewed 10,002 performance elements in the operations of Medicare contractors and issued 113 Annual Contractor Evaluation Reports (ACERs).

Medicaid

- In FY 1985, approximately 90 reports on payments under approved Home and Community-Based (HCB) waivers were reviewed and analyzed to determine if each waiver was cost effective as required.
- In FY 1985, HCFA reviewed over 500 State performance areas and issued 51 State Medicaid Operations Reports (SMORs).
- In FY 1985, HCFA reviewed the implementation of approximately 40 approved HCB waivers.
- In FY 1985 data validation reviews were performed in 4 States in addition to 44 States reviewed in FY 1984.
- In FY 1985, a special study of payments to Intermediate Care Facility (ICF)/Mentally Retarded (MR) was conducted focusing on the propriety and accuracy of payments in seven targeted States. Over 1,100 cost reports were reviewed and analyzed in the project.

4. QUALITY CONTROL

The primary objective of this function is to maintain the fiscal integrity of the Medicare and Medicaid programs and enforce health and safety standards. Specific activities include:

- Oversight of Medicare intermediary activities for both retrospective and prospective based reimbursement to providers including audits, settlements, interim payments, and rate determinations.
- Evaluation of samples of Medicare Part B claims to assess Medicare carrier performance in processing and paying claims.
- Reviews of State Medicaid determinations in the areas of reimbursement, eligibility, third party liability, and claims processing.
- Monitoring of the medical and utilization review activities of Medicare contractors, State Medicaid Agencies and Peer Review Organizations (PROs).

Major Highlights/Significant Accomplishments

Medicare

- In FY 1985, HCFA implemented the Quality Evaluation of Settlements under TEFRA (QUEST) and the Home Office Quality Evaluation of Settlements under TEFRA (HO-QUEST) to monitor and evaluate contractor operations involving TEFRA audits.

- During FY 1985, HCFA evaluated and monitored the audits conducted in the 4 waiver States - New York, Massachusetts, Maryland, and New Jersey. These audits established both base year data and the hospital specific rate for providers in the event that States terminated demonstrations and/or did not apply/receive an 1886(c) waiver.

- During FY 1985, HCFA participated in the oversight efforts of the hospice audits and rate setting calculations.

- During FY 1985, a pilot review to evaluate the accuracy of FI processing of PPS inpatient bills was conducted. Results from this review will determine the necessity for an ongoing national evaluation program.

- During FY 1985 a study was conducted to obtain data on the accuracy in preparation of both EMC and Hard Copy claims. Study data may result in program or operational revisions to assure continuing accuracy of Part B claim preparation.

- During FY 1985, HCFA initiated a RO/CO workgroup and established an ad hoc TAG for the Part B QA redesign. In addition to meetings held, a national User's Survey was developed to solicit input for the upgrading and redesign of management report outputs from ROs and carriers. Efforts will result in improved management data to better evaluate claims processing by Part B carriers.

- In FY 1985, carriers implemented 7 electronic prepayment screens with set parameters to assure national consistency/uniformity. In addition, 13 additional screens with parameters were pilot tested at 22 carrier sites. As a result of these pilot tests, 9 additional screens will be used by carriers in FY 1986.

- In FY 1985, carriers began profiling physician practice patterns to determine whether there were any changes in response to the physician fee freeze (for example, increase in services, upcoding, increase in mix of services). Corrective action will be taken if necessary.

- In FY 1985, an A-B link was established whereby intermediaries notify carriers of inpatient hospital or SNF denials. The carriers then review claims for associated physician services to determine whether they were medically necessary.

- In FY 1985, as part of the emphasis on home health services, HCFA revised the coverage compliance review procedures to require postpayment onsite audits. This enables the FI medical staff to verify that claims were correctly paid.

- In FY 1985, HCFA also developed home health plan of treatment/patient information forms to be used by FIs in reviewing home health claims. These forms result in uniform data collection and more accurate coverage decisions. Training sessions were conducted for all FIs on home health coverage and how to use the new forms. FIs were also provided with training packages for use in instructing providers on the new forms.

- In FY 1985, FIs began implementing outpatient physical therapy prepayment screens and increased CORF claim review to 100 percent.

Peer Review Organizations

- HCFA issued six PRO program directives and three Interim Menual Issuances.
- During FY 1985, HCFA has worked closely with individual PROs to ensure successful implementation of the PPS and enforce standards of health and safety in the delivery of hospital care. This effect will continue during FY 1986.
- During FY 1985, HCFA reviewed/evaluated 28 PRO proposals; conducted 24 PRO contract negotiation sessions; held 34 PRO contract debriefings; resolved two contract protest actions; and awarded 22 PRO contracts.
- HCFA has processed all of the severance pay actions submitted to close out the PSRO program. One appeal on severance pay is pending.
- HCFA processed 149 PSRO grants actions.
- HCFA reviewed 95 PSRO audits and 142 close-out budgets.
- During FY 1985 HCFA terminated PROs in three areas: The Pennsylvania PRO has been replaced by a new contractor; new organizations are currently being sought for Massachusetts and South Carolina.
- Quality review continues to be an important part of the PRO program. PRO milestones are and will continue to be evaluated to determine the extent to which PROs achieve their quality objectives.

Medicaid

- In FY 1985, the State Performance Evaluation and Comprehensive Test of Reimbursement under Medicaid (SPECTRUM) program replaced the Systems Test for Alternative Reimbursement (STAR) and the Institutional Reimbursement section of the State Assessment program. SPECTRUM will be conducted in 50 states and like STAR will evaluate the State's action in setting, adjusting, and monitoring Medicaid institutional reimbursement.
- A pilot data exchange project was completed in two States matching State Medicaid eligibility files against the Department of Defense (DoD) Defense Enrollment Eligibility Reporting System (DEERS). The objective of the exchange was to identify Medicaid recipients who are eligible for medical services under the DoD military health care system. National implementation of the exchange will begin the first calendar quarter of 1986.

- In FY 1985, under the Medicaid Eligibility Quality Control Program, HCFA completed over 27,552 eligibility re-reviews.

- In FY 1985, $3.7 million was withheld from States based on TEFRA projections.

- In January 1985, States were notified of TEFRA disallowances for the April and July quarters of FY 1983 totalling $24.8 million and Michel Amendment disallowances for FY 1982 totalling $40.6 million. In August 1985, States were notified of FY 1984 disallowances totalling $45.5 million.

- In FY 1984 and FY 1985 State agencies were monitored to assure they met the requirements of the (UC) program. In FY 1985, $12 million in penalties were assessed for 33 States.

- In FY 1985, HCFA conducted 10 pilot audits of State Third-Party Liability (TPL) operations. The audits are focused on trauma diagnoses codes, Aid to Families with Dependent Children (AFDC) medically needy cases, hospital intake records and use of TPL indicators.

- HCFA is participating in a joint project with SSA whereby SSA will collect detailed TPL resource information from SSI applicants/recipients during initial intake and redetermination processes. SSA will provide these TPL collection procedures to all interested section 1634 States, i.e., those where SSA makes a simultaneous determination of Medicaid eligibility when making a determination of eligibility for SSI benefits. As of January 1986, SSA had implemented the TPL recovery procedure in 20 of 32 section 1634 States.

5. OPERATIONAL REVIEW ACTIVITY

HCFA has primary responsibility for operational reviews which assess the need for policy and operational reforms in vulnerable program areas. Specific activities include:

- Preparation of pilot studies of selected program and policy issues through the review of in-house information, supplemented by additional on-site documentation, to determine whether national reviews should be undertaken.

- Development of detailed review guides, manual instructions, quarterly reports, summary issue papers, and special studies.

Major Highlights/Significant Accomplishments

- Reviews in FYs 1984 and 1985 have focused on the following areas:

- Medicare Secondary Payer - An initial review in FY 1984 focused on the ability of hospitals to identify MSP occurrences and the degree to which they were billing primary insurers where Medicare was the secondary payer. A followup review in 1986 will look at the effectiveness of a number of new MSP initiatives and the validity of actuarial projections on MSP savings, particularly with respect to new DEFRA legislation.

- HCFA's State Review and Evaluation Programs

- Parenteral/Enteral Therapies

- Part B Medical Review/Utilization Review

- Pacemaker Reimplantation

- HHA National Review - The major findings of this review were:

  1. Based on an independent review by HCFA nurse panels, 34 percent of all home health care billed to Medicare in 1984 amounting to approximately $600 million was for noncovered services. Intermediaries, however, denied less than 3 percent of home health services billed that year;

  2. Though there has been a dramatic growth in the number of HHAs, particularly proprietary or for profit agencies, there has not been a dramatic increase in the hospital discharge to HHAs or the number of HHA services provided to beneficiaries since PPS;

  3. HCFA's Coverage Compliance Review Program (CCRP) figures look behind compliance initiative performed by intermediaries results in higher denial rates than the normal claims processing utilization systems used by intermediaries;

  4. The major cause of the low intermediary/denial rate was the inadequacy of medical information submitted on or with HHA claims.

- Medicaid Oversight Program

- Medicare Oversight Program

- Provider Based Physician (PBP)

- Cardiac Pacemaker (Physician Fees)

- Cardiac Rehabilitation Centers

- Peer Review Organization (PRO) Data

- Malpractice

- Medicare Secondary Payer (MSP) (Spousal ESRD, HMO)

- Medical Technologies

- In FY 1986 and 1987, operational reviews will address at least a dozen issues of concern including:
    - Laboratory Fee Schedules
    - HCFA Common Procedure Coding System (HCPCS) Implementation
    - ESRD Composite Rates
    - Hospice Care
    - Health Maintenance Organizations (HMOs)
    - Physician Reimbursement
    - The reconciliation of State ICF/MR reimbursement and cost report analysis in seven States as part of HCFA's "Look Behind" effort with respect to ICF/MRs.
    - Beneficiary Profiling System Utilization and Expenditure Changes under PPS in ten (10) States.

6. MAINTENANCE OF HEALTH AND SAFETY STANDARDS

HCFA is responsible for the establishment and implementation of the statutory Federal health and safety standards which stipulate specific structural requirements as well as quality of care conditions for approximately 44,000 Medicare and Medicaid facilities. Specific activities include:

- Development, analysis, and enforcement of standards for all providers and suppliers participating in the Medicare/Medicaid program.
- Evaluation of the performance of State Survey Agencies.
- Conduct of Federal validation surveys.

Major Highlights/Significant Accomplishments

- HCFA has developed an ESRD facility based quality assurance program to improve the quality of care provided to ESRD patients.
- Improvements have been made to the effectiveness, accessibility and reliability of the Medicare/Medicaid Automated Certification System (MMACS) by (1) strengthening the computer link between States and HCFA; and (2) simplifying resurvey scheduling.

- HCFA has encouraged States to integrate the Inspection of Care review process with the survey process in LTC facilities. This will eliminate the dual review process and provide more efficient use of resources.
- Survey procedures and training programs have been developed for hospices.
- HCFA has developed outcome-oriented survey tools to improve the quality assurance aspects of the survey process.
- Experiments have been conducted to improve the efficiency of the survey process.
- HCFA has identified problems in public institutions for the mentally retarded and will implement Federal enforcement actions as required.
- Between 1984 and 1987, 6,065 additional health care providers will be surveyed and added to the Medicare and Medicaid programs. Beneficiaries will have access to additional health care services due to newly authorized facility types, e.g., ambulatory surgical centers, comprehensive outpatient rehabilitation facilities and hospices.
- During FY 1985, 39 State surveyor training courses were conducted for about 1,556 surveyors as part of the oversight and support of 3,000 surveyors nationwide.
- Over 800 "look-behind" surveys of Intermediate Care Facilities for the Mentally Retarded will be conducted in FY 1986 with the additional funds and positions provided by Congress. These surveys ensure that providers meet standards of participation for Medicaid.
- In FY 1985, HCFA completed 324 State Agency Evaluation Program (SAEP) visits and issued 51 Comprehensive Evaluation Reports (CERs) on State Survey Agencies.
- HCFA has expanded the survey process for home health agencies to include home visits. These home visits will ensure that home health agencies comply with program requirements concerning the delivery of patient care services.
- HCFA is working towards national implementation of intermediate sanctions to deny Medicare payments for new admissions to long-term care facilities in lieu of termination, if it is determined that the facility does not meet one or more conditions of participation and the facility's deficiencies pose no immediate jeopardy to patients' health and safety.
- In FY 1985, HCFA published a final rule on copayment requirements and published an NPR giving States greater flexibility in applying post-eligibility process for institutional care.

- FY 1986 initiatives include the final rule on spend-down process and a final rule on post-eligibility process for institutional care. An NPR has been published on the DEFRA provision on pregnant women and newborns.
- Regional staff and a panel of psychiatric consultants will be used to increase survey coverage of the two special conditions in psychiatric hospitals.

7. REGULATIONS DEVELOPMENT

Regulations are the vehicle for implementing legislative actions and Administration initiatives. In the current thrust toward streamlining reporting requirements and reducing program costs, the regulations development and review process plays a key role. In the conduct of this function, HCFA staff develop, review and clear regulations, manual instructions, guidelines, and other policy documents.

Major Highlights/Significant Accomplishments

- In FY 1986, HCFA staff will prepare approximately 100 regulation documents. Major initiatives include the Prospective Payment System regulations and various budget items; e.g. waiver of liability rules, return on Equity Capital, HHA and SNF cost limits.
- HCFA will prepare regulations as necessary to implement new legislative initiatives.
- Final regulations were published on November 12, 1985, in the Federal Register which require State Medicaid Agencies to use the cost avoidance method of payment in circumstances in which the Agency has established the probable existence of third party liability at the time the claim is filed unless a waiver is approved by the HCFA Regional Office.

8. RESEARCH, DEMONSTRATION, AND STATISTICAL ANALYSIS

This function provides evidence for the cost-effectiveness, administrative feasibility and effect on beneficiaries and providers of proposed changes in the Medicare and Medicaid programs prior to program-wide adoption. Specific activities include:

- Development, conduct and evaluation of experiments, demonstrations, and research projects to assess the impact of contemplated changes in the Medicare and Medicaid programs.
- Conduct of congressionally mandated studies (e.g., concerning PPS issues).
- Development of legislative and regulatory proposals, economic and statistical analyses, and the design of research/evaluation projects.
- Dissemination of program data and statistics on utilization, expenditures and access to services.
- Maintenance of the Medicare Statistical Systems.

- Development of statistical data standards and monitoring of the quality of data collection activities in the Medicare program.
- Formulation of overall health data policies for the Agency.
- Preparation of the Trustees' Reports on the status of HI and SMI Trust Funds.
- Preparation of Medicare and Medicaid budget projections.
- Preparation of estimates of the cost of legislative and regulatory changes for the Medicare and Medicaid programs.
- Determination of budget neutrality for determining PPS rates for FY 1984 and FY 1985.
- Preparation of economic price indices for payments to Medicare providers under PPS and TEFRA.
- Development of final national AAPCC ratebooks.
- Preparation of historic estimates and projections of national health expenditures.
- Collection, maintenance and dissemination of Medicaid data and providing of technical assistance and consultation to users of the data.
- Providing actuarial and economic consultation and assistance to EOMB, Congress, and States, as well as within HCFA and HHS.
- Providing Medicare and Medicaid operational workload statistics.

Major Highlights/Significant Accomplishments

- Developed and conducted 16 congressionally mandated studies on PPS.
- Developed and implemented a system for collecting procedure-specific physician and supplier data to conduct studies on physician payment reform.
- Conducted studies linking Part A and Part B data to study the feasibility of reimbursing physicians providing inpatient services on a DRG basis.
- In FY 1985, HCFA served as fiscal intermediary for 1? demonstration projects containing 275 providers and processed approximately 350,000 claims, disbursing $31 million in benefit payments.
- Trustees' Reports on the status of HI and SMI Trust Funds were prepared and submitted to Congress.

- The amount of the Medicare Part A deductible, premium levels for Parts A and B, the Part B economic index, and the ESRD composite rates were updated.
- Developed technical backup and recommendations for both the proposed and final FY 1986 prospective payment system (PPS) payment rates.
- In FY 1985, HCFA developed a national AAPCC ratebook which, upon certification by the Secretary of HHS, implemented Section 114 of TEFRA. HMO/CMP's are now allowed to enter into risk contracts with HCFA to provide services to their Medicare enrollees.
- Ten budget projections of Medicaid expenditures were made. Over 250 estimates of proposed legislation and regulatory impacts were done relating to the Medicaid program.
- The Medicaid Forecasting System has been implemented on the mainframe and enhanced.
- The Med Stat System, giving States the option to submit a tape sample of Medicaid claim statistics, was initiated. The implementation of this system will be a major effort for the next few years. The Med Stat System will make a dramatic improvement to Medicaid data.
- The 1984 Medicare-Medicaid Data Book and the 1984 Analysis of State Medicaid Program Characteristics were prepared.
- Conducted research on alternative scenarios for calculating and updating input price indices which are used in market basket applications under PPS and TEFRA.
- A benchmark revision of the National Health Expenditure Accounts is in process.
- Prepared four articles for publication in the HCFA Review on national health expenditures and projections, State estimates and analyses of causes of rises in health costs.
- Provided Actuarial Consultation to the North Dakota Congressional Delegation concerning the FMAP formula.
- Provided Actuarial Consultation on Capitation programs; in particular, instructed the State of Michigan in the use of credibility.
- Conducted a study on a new hospital wage index and sent report to Congress as required under section 2316 of The Deficit Reduction Act.
- Prepared 68 Medicare and Medicaid Operational Workload Reports.

9. PROGRAM MANAGEMENT SYSTEMS DEVELOPMENT AND MAINTENANCE

This function maintains the Medicare/Medicaid information bases on entitlement, premiums, deductibles, utilization, provider certification, and other operational items. It also involves the assessment of programmatic ADP systems. Specific activities include:

- Operation of the Medicare ADP systems that maintain beneficiary entitlement and utilization records; and maintenance of the data file on provider certification and SMI premium collections.
- Operation of other program systems which support many of HCFA's major cost control activities (e.g., MEQC).
- Electronic processing and issuance of Medicare cards, Part A utilization notices, and Part B benefit explanations.
- Conduct of initial certifications and subsequent System Performance Reviews of Medicaid Management Information Systems.
- Development of recommendations on proposed acquisitions of EDP hardware/software by Medicare contractors.
- Operation of the State Buy-In Program for Medicare/Medicaid eligibles, maintenance of the buy-in master file, and the billing and collection of approximately $42 million per month for SMI premiums under State Buy-In.
- HCFA has initiated a Workload Management System to assure coordinated management planning for contractor implementation of Medicare program changes. The system prioritizes new contractor tasks while ensuring that funding issues are addressed, and that clear instructions are issued providing contractors with adequate implementation lead time. A report is issued periodically to all contractors to advise them of current tasks in the system and their relative priorities.

Major Highlights/Significant Accomplishments

Medicare

- During FY 1983, the Medicare direct billing and collection functions were successfully transferred from SSA to a private bank under contract to HCFA, saving about $1.5 million annually. Beginning in FY 1985, the collection function was performed through a Treasury Department network "lock box" bank. HCFA realized further savings as the Treasury Department assumed the annual $300,000 cost for the collection activity of the lock box. In FY 1985, HCFA entered into a separate private sector contract for the billing function of preparing and mailing the bills.
- Designed and implemented processes for monitoring the newly enacted prospective payment system.
- Provided technical assistance and statistical and raw data files to Congress, the public, and various governmental agencies, (GAO, PROPAC, OIG, OTA, CBO, OCHAMPUS) concerning all aspects of the prospective payment system.

- Developed a registry to monitor and report on all pacemaker related implants for use in recalls.

- Developed a data exchange and selection system between fiscal intermediaries and Peer Review Organizations to provide for medical review of inpatient hospital services.

- In FY 1985 the percentage of electronic medial claims (EMC) increased from 43 percent to 57 percent for intermediaries and from 18.5 percent to 24 percent for carriers. These figures are both well in excess of the 1985 targets of 50 percent and 20 percent.

- The System to Provide Immediate Data on Eligibility for Reimbursement (SPIDER) project is proceeding successfully. Phase I (query and admission) and Phase II (inpatient/SNF bill processing) have been implemented. Work on Phase III (outpatient bill processing) is currently under way. All phases of the project will be completed during FY 1986.

- In FY 1986 all provider types (HHAs, SNFs, CORFs, Christian Science Sanatorium) began using the UB-82.

- The intermediary systems test is being conducted at designated intermediary sites in FY 1986 to test accuracy of bill processing under PPS and compliance with HCFA processing instructions.

- Standard PS&R System being installed in intermediary sites in FY 1986. System is being fine tuned and enhanced to provide uniform cost reporting and settlement data for providers and intermediaries.

- A standard home health screening module is being developed for FY 1986 installation in designated home health intermediaries. Module will provide uniform parameters for screening home health plan of treatment and Medicare information forms related billing.

- FY 1986 initiatives include the following:

    - development of new outpatient payment processes
    - revised Grouper, Pricer and Medicare code editor for PPS
    - processing of bills for new coverage for defibrillator, AIDS, and heart transplants
    - implement an outpatient code editor to verify outpatient hospital data
    - implement procedures for enforcing timely billing for receipt of periodic interim payments by hospital providers.

- In FY 1985, HCFA began to collect State buy-in premiums through the automated Treasury Financial Communication System (TFCS) in order to improve the timeliness of the collection process. States that could not utilize the system, as well as other third party groups were brought under the Treasury Department "lock box" network. Currently, 15 States use TFCS to deposit an average of $14 million in monthly premiums.

- HCFA is responsible for the establishment and maintenance of a master file of beneficiaries. The master file is "queried" by the intermediaries and carriers prior to claims payment in order to confirm a beneficiary's entitlement and to determine the amount of deductible to withhold and any other limitations on coverage. In FY 1985, over 56 million records were maintained and updated.

- During FY 1985, HCFA has received data from, and provided data to 180 Medicare contractors. Processed 123,000,000 queries, 50,000,000 bills, and 190,000,000 physician payments. These queries inform the carriers and intermediaries of a claimant's entitlement to benefits and any deductible amounts to be collected or limitations on coverage for appropriate reimbursement.

- HCFA maintains a contractor workload reporting system to track performance in areas such as claims processed, electronic claims submission, Medicare Secondary Payer, assignment rates, claims denials, appeals, and audit activities.

- In FY 1984, HCFA began a major effort to collect outstanding Part B State Buy-In Premiums. HCFA developed a proposal to encourage timely payment through the use of interest penalties and offset of overdue premiums against State Medicaid grants. This proposal was published in the Federal Register on September 30, 1985. Premium arrearages have already dropped significantly due to informal notification to the States of the proposed policy change and in anticipation of the use of interest and offset. In early FY 1985, there was a premium arrearage of $87 million which was reduced to $4 million by the beginning of FY 1986. Since then the arrearage has been reduced to $2.5 million and is expected to be reduced to zero in January 1986 when the policy is in full effect.

- Developed and conducted Intermediary and Carrier Systems Tests to ensure conformance of intermediary and carrier bill processing systems with HCFA requirements.

- Standard PS&R system developed by Connecticut BC. System was mandated for all intermediaries September 30, 1985 to eliminate provider burden in maintaining Medicare log.

- Development of Standard HHA Subsystem by Prudential which will be available for use by designated HHA intermediaries in lieu of costly enhancements to existing individual systems.

- During FY 1985, a claims processing consortium was developed to combine the processing requirements from three contractors into a single centralized data processing operation.

- In FY 1985, a cooperative claims processing group was initiated to share the development and maintenance of a compatible data processing system. The systems software is being transferred from existing contractors to groups of five or more contractors who will share the cost of this responsibility.

- During FY 1985, HCFA introduced prepayment edit modules to standardize the processing functions for specific types of claims.

- During FY 1985, the percentage of Electronic Media Claims (EMC) increased from 43 percent to 50 percent for intermediaries and from 18.5 percent to 20 percent for carriers.

Medicaid

- Conducted annual review of 40 States with a certified Medicaid Management Information System (MMIS) to determine whether the system is operating according to Federal guidelines.

- Implemented the Bill Processing System Test (BPST) in four States to provide in-dept data related to processing errors and corrective action.

- With the impending certification of the State of Maryland, 44 States and the District of Columbia have certified Medicaid Management Information Systems (MMIS), entitling them to receive 75 percent Federal financial participation (FFP) for the operation of their system. All States required to have an operational MMIS now have one.

HCFA Data Center

- In FY 1985, HCFA's Data Center processed over 223,000 jobs. In FY 1985, the Center was expanded to consolidate all program management, research and statistical information resources.

10. PROGRAM INSTRUCTION/TECHNICAL ASSISTANCE

This function embodies the responsibility for communicating HCFA's program policies and procedures to beneficiaries and providers and ensures uniformity in treatment of Medicare/Medicaid coverage, eligibility and reimbursement issues, resulting in reduced administrative costs. In addition to ensuring compliance with all relevant laws and regulations, technical assistance provides a vehicle for the resolution of operating problems identified by GAO, health care providers, or program beneficiaries. In performing this function, HCFA staff:

- Develop, issue and maintain policy interpretations and revisions of manuals used by contractors, State Agencies and providers.

- Develop and issue requirements for processing Medicare/Medicaid claims.

- Provide technical assistance to State Medicaid Agencies and Medicare contractors.

Major Highlights/Significant Accomplishments

- In FY 1985, HCFA staff issued approximately 570 policy issuances to States and contractors.

- FY 1985 Issuances included:
  - Prospective Payment System Instructional Material
  - New Manuals for HMOs and PROs
  - Reorganized State Operations Manuals

- Freedom of Choice Waivers
- Educational Services Exclusions on ICF/MRs Instructions
- Hospice Instructions
- Implementing Hepatitis B Instructions
- Magnetic Resonance Imaging Instructions
- Revised Provider-Based Physician Instructions
- Medicaid Eligibility on Pregnant Women and Children Instructions
- Physician Freeze Instructions
- Clinical Diagnostic Laboratory Billing Instructions
- Updated UB-82 instructions for HHA's, SNF's and hospitals
- Revised Medicare Bill Record Instructions
- Electronic Media Claims Instructions
- Medicare Secondary Payer Instructions
- Redesigned Explanation of Medicare Benefits (EOMB)
- Durable Medical Equipment under the Home Health Benefit
- Instructions to implement MQC under TEFRA.

o Planned FY 1986 instructions include:

- Applicability of Medicaid Spend-down Provisions
- Case Management Services
- Hospice Services
- Additional Hospice Instructions
- Inappropriate Placement of Mentally Retarded Persons in Nursing Homes
- Home and Community-Based Waiver Services
- Emergency and Foreign Claims Procedures
- Outpatient Code Editor
- Repeat Hospital Admissions
- Monitoring of Periodic Interim Payments to Hospital Providers

o In FY 1984, HCFA, in cooperation with State Medicaid officials, health professionals organizations and consumer groups, completely redesigned the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program. Implementation activities will continue into FY 1985, based on revised regulations and new guidelines.

o Requirement for ICD-9-CM coding of diagnoses on all provider claims.

o Developed electronic format for HHA plan of treatment and medical information required for intermediary medical review of claims to facilitate EMC.

o Instructions implementing clinical diagnostic laboratory provisions of DRA for ESRD patients.

11. LEGISLATION AND CONGRESSIONAL AFFAIRS

This function provides support to the Secretary, the Assistant Secretary for Legislation (ASL), the HCFA Adminstrator and HCFA senior staff, in planning and managing legislative operations of the Agency. It provides the capability for responding to Congressional legislative initiatves related to health care financing programs and maintains liaison with the Congress on legislative and budget proposals affecting these programs. In addition, the function includes legislative and policy development through the performance of policy-relevant studies of health care financing issues and the review and development of legislative budget proposals. Specific activities include:

- Plan and coordinate (with ASL) Congressional briefing sessions and prepare Congressional hearings.
- Provide technical assistance to the Department and Congress during Committee mark-up of proposed legislation and other Congressional activity on HCFA programs.
- Prepare briefing books, materials and reports on Congressional issues.
- Conduct briefing sessions for HCFA officials and Congressional staff.
- Provide legislative research and information services, including management of HCFA's legislative reference library.
- Perform long and short-range policy analyses in such areas as prospective payment systems; Medicaid coverage and eligibility; long-term care alternatives and physician reimbursement reforms.

Major Highlights/Significant Accomplishments

- Developed or analyzed over 70 legislative proposals for technical changes and major program initiatives under Medicare and Medicaid, including significant cost saving proposals.
- Prepared testimony and supporting materials for over 50 congressional hearings on HCFA programs and Administration initiatives.
- Developed major policy studies on prospective payment systems for Skilled Nursing Facilities and physician reimbursement reforms.
- Participated in meetings and briefing sessions for Members of Congress and their staffs to address specific Congressional concerns and support legislative development activities.
- Provided liaison and technical assistance to congressional staff on constituent case work and inquiries.
- Responded to more than 3,700 congressional telephone and written inquiries concerning HCFA Programs.

12. PROGRAM COMMUNICATIONS AND BENEFICIARY SERVICES

The amount of program dollars and the number of individuals, organizations and health care providers affected by the Medicare and Medicaid programs make this activity one of the most important functions of the Agency. Responses to inquiries often interpret or clarify laws, regulations or program guidelines with a potential impact on large numbers of beneficiaries and a direct impact on significant amounts of program dollars. Public information activities promote beneficiary awareness of cost-effective practices. Liaison activities with health care organizations, State and local governments and other interested parties serve to alert the Administrator of sensitive/critical situations. In performing this function, HCFA staff:

- Respond to written and telephone inquiries.
- Prepare and distribute press releases, public service announcements and mailings to beneficiaries.
- Conduct meetings and conferences with beneficiary groups, professional and scientific organizations, State and local officials, and insurance companies to promote special initiatives and to explore ways to manage HCFA's programs more effectively and efficiently.

Major Highlights/Significant Accomplishments

- During 1985 the Agency responded to more than 500 calls over the prospective payment hotline.
- HCFA meets with beneficiary advocacy groups on a variety of issues of mutual concern, e.g., Explanation of Medicare Benefits (EOMB) formats, toll-free telephone services, and listings of physicians accepting assignment under the Medicare program. These activities will be strengthened during FY 1986.
- During FY 1985, HCFA processed approximately 500,000 pieces of correspondence, including responses to general public inquiries, Congressional/White House inquiries (19,000), Freedom of Information Act requests (30,000) and intergovernmental inquiries (62,000).
- HCFA set up a DME hotline for inquiries from the supplier industry and Medicare contractors to assist with any concerns expressed about implementing the new rent/purchase guidelines. Responses to over 200 calls were made during the first two months after implementation.
- The total number of beneficiary solicitations in the 1985 General Enrollment Period (GEP) was 97,753 (86,147 domestic contacts and 11,606 Puerto Rico contacts). Of those beneficiaries contacted by the mail solicitation, 16,864 subsequently enrolled in SME (16,126 domestic and 738 from Puerto Rico). Plans for the 1986 GEP are on schedule and enrollment packages should be mailed in February 1986.
- A mass mailing will be made to notify enrollees of the participating physician/supplier concept and the availability of participating physician/supplier directories (MEDPARD). Present plans call for including the notice with the March 3 SSA and March 1 RRB benefit checks, with a self-mailer to those on direct deposit to be released in mid to late February 1986. Premium bill enclosures will be included in the February, March, and April 1986 bills, for those enrollees not receiving benefit payments.

- During the December 1985 and January 1986 period, notices were released to the entire Medicare beneficiary population (approximately 30 million). These notices inform beneficiaries of the 1986 increase in the inpatient hospital deductible, and coinsurance amounts, and that the SMI premium rate would not be changed in 1986.

- During FY 1985, Medicare carriers handled 16,375,462 beneficiary inquiries (12,117,654 telephone, 3,747,921 written, 509,887 walk-in). This represented a 25.2 percent increase over FY 1984. Also during FY 1985, Medicare intermediaries handled 1,301,804 beneficiary inquiries (933,818 telephone, 305,460 written, 62,526 walk-in). This represented an 18.4 percent increase over FY 1984.

13. ADMINISTRATIVE SUPPORT

This function embraces many responsibilities mandated by law, regulation or external sources, such as the Office of Management and Budget (OMB), Department of Treasury, Office of Personnel Management (OPM) or General Accounting Office (GAO). Specific activities include:

- Formulation and management of the program and administrative budget submissions; development and maintenance of financial management systems, payroll and accounting operations.

- Administration of HCFA grant and contract activities to ensure compliance with relevant laws, regulations and other administrative requirements.

- Provision of general administrative services, including management and control of real and personal property, security, printing, teleconferencing, etc.

- Administration of the personnel/position management activity.

- Planning and coordination of management activities such as internal control, productivity improvement, paperwork burden reduction, workplanning, delegations of authority, organizational analyses and A-76 studies to determine the cost-effectiveness of contractor vs. government employee performance of work.

- Operation and management of administrative management computer systems; provision of centralized ADP/telecommunications support.

- Performance of liaison and administrative support activities for the regional offices.

- Participate in workgroup with the Inspector General's office to develop a model type of criteria edits for the detection of fraud.

- Management, development, and implementation of HCFA's Equal Opportunity Programs.

- Process Medicare-related correspondence and ADP exceptions generated by the Health Insurance System.

Major Highlights/Significant Accomplishments

Budget

- Three budget submissions (to OS, OMB, and Congress) are prepared annually. In FY 1986, the combined budget for Medicare and Medicaid will exceed $92.8 billion under current law and cover more than 51.4 million people in the Medicare and Medicaid programs.
- Multiple apportionments are prepared annually for HCFA's three appropriations: Grants to States for Medicaid ($21.8 billion); Payments to the Health Care Trust Funds ($18.8 billion); and Program Management ($1.2 billion).
- Twenty-one allotments and 107 allowances for each initial apportionment or continuing resolution are prepared annually.
- Thirteen status of funds reports and 26 biweekly employment reports are prepared annually. Individual ceiling allocations are issued for Bureaus and Offices; special analyses of staffing levels and requirements in selected areas are completed as needed.
- Administrative costs are allocated on an ongoing basis between the Medicare Trust Funds and General Treasury Revenues.

Accounting

- Approximately 1,700 daily and periodic financial reports are processed and reconciled annually.
- Approximately 322,000 financial transactions are processed annually.
- Approximately 21,000 check/TFCS or cash payments, as well as 31,000 letter-of-credit payment vouchers are audited and processed annually.

Management

- Public information requests are cleared through the Office of Management and Budget, as required by the Paperwork Reduction Act. HCFA projects the Public Reporting Burden was reduced by 9.7 million hours in FY 1985.
- Over 30 internal management audits are conducted annually.
- Approximately 2,000 pages of HCFA issuances are managed and updated annually.

Personnel

- Approximately 2,920 personnel actions and 600 labor/management actions are processed annually.
- Approximately 2,300 classification activities are performed annually.

Procurement/Grants

- Approximately 750 contract awards and modifications were processed.
- Approximately 600 grant awards, modifications, and continuations were processed.
- Substantially exceeded Procurement Preference Program, Even Scheduling and Competitive Award goals in FY 1985.
- Achieved documented savings of more than $14 million in negotiations of contract and grant awards in FY 1985.

Administrative Services

- Continued implementation of master housing plan allowing HCFA to achieve its square foot occupancy goals for FY 1985 and FY 1986, resulting in substantial savings of recurring costs.
- Conducted over 1,000 employee physical examinations which identified potential serious health problems in 4 percent of the employee population.
- Continued upgrade and usage increase of regional and central office teleconferencing system which saves drastically on travel costs.
- Nominated for Presidential Safety Award as a result of achievements in reducing accident frequency rates, injury severity rates and worker's compensation costs.
- Approximately 5,000 occupancy modifications, adjustments, and corrections were processed.
- Approximately 3,000 procurement safety reviews were conducted.
- Processed approximately 2,000 printing requisitions having a value exceeding $10 million through GPO.
- Printed and distributed 225 million forms to 2,000 Medicare form users nationwide at a cost of $3.1 million.
- Implemented a Hazard Hotline for professional safety guidance and/or reporting of hazards and received approximately 700 requests.

Operations Support

- Process 142,000 annual inquiries and exceptions involving the enrollment and entitlement of Medicare.
- Process 35,000 annual inquiries and exceptions involving Medicare Part B and Part B utilization data.
- Process 575,000 annual requests for data entry and microfilm services.

- Process 102,000 annual inquiries and exceptions involving Medicare premium payment from groups, e.g., United Mine Workers.
- Process 305,000 annual inquiries and exceptions involving Medicare premium payment from beneficiaries.

Automatic Data Processing

- HCFA has selected the new systems design concept for its long-range automatic data processing environment. This concept encompasses the use of data base management systems (DBMS) technology; the integration of major data bases; and increased office automation.
- The recently acquired Storage Technology Corporation (STC), storage system passed its acceptance test and is being turned over to the user community. The Disk System, installed in mid-November, will double the HCFA Data Center's current storage capacity.
- An IBM 3081 Processor has been installed in the HCFA Data Center. By the end of January 1986, this processor will give HCFA users approximately seven times the performance capabilities previously available at the HCFA Data Center.

14. EXECUTIVE DIRECTION

This function is critical to the overall effectiveness and efficiency of the Agency in meeting its obligations to administer the Medicare and Medicaid programs and related provisions of the Social Security Act. These activities direct the planning, coordination and implementation of the operational programs and the development of effective relationships between these programs and other Federally supported health programs. In performing this function, executive staff:

- Promote the timely and economic delivery of quality health care to eligible beneficiaries.
- Promote beneficiary awareness of services and improve service accessibility.
- Promote efficiency and quality within the total health care delivery systems.
- Assure the financial integrity of the Medicare and Medicaid programs.

HEALTH CARE FINANCING ADMINISTRATION

Estimates for Consulting Services

Account Title	Type 1/	Source of Funds 2/	Obligations 1985	Obligations 1986 Appro.	Obligations 1986 Current Estimate 1/	Obligations 1987
Evaluation:						
Program Management Research	C	A	$ 1,050.0	$ ---	$ ---	$ ---
		N	2,140.0	2,500.0	2,250.0	2,334.0
Subtotal, evaluation..................			$ 3,190.0	$2,500.0	$2,250.0	$2,334.0
Non-Evaluation:						
Program Management						
State Certification	C	A	$ 106.1	$ ---	$ 501.9	$ 600.0
Administrative Costs	C	A	276.0	378.0	172.5	117.4
		N	586.4	803.0	366.5	249.6
	P	A	8.3	2.0	8.3	8.3
		N	17.9	3.0	17.9	17.9
	A	A	.1	-	.1	.1
		N	.2	-	.2	.2
Subtotal Non-evaluation....................			$ 995.0	$1,186.0	$1,067.4	$ 993.5
Total, Consulting Services..............			$ 4,185.0	$3,686.0	$3,317.4	$3,327.5
TOTALS:						
Contractual services..................			$ 4,158.5	$3,681.0	$3,290.9	$3,301.0
Personnel appointments..............			26.2	5.0	26.2	26.2
Advisory committee expenses.....			.3	---	.3	.3
Total, Consulting Services			$ 4,185.0	$3,686.0	$3,317.4	$3,327.5

1/ Indicate C for contractual services, P for personnel appointments, or A for advisory committee obligations.

2/ Indicate A for appropriated funds or N for non-appropriated funds.

NOTE:

These estimates reflect the reductions associated with Section 515 of the version of the Treasury-Postal Service and General Government Appropriation Act of 1986 included by reference in the full-year Continuing Resolution for FY 1986 (P.L. 99-190).

HEALTH CARE FINANCING ADMINISTRATION

Consulting Services

The Health Care Financing Administration (HCFA) plans to use approximately $3,317,400 in FY 1986 and $3,327,500 in FY 1987 in consultant services for the following activities:

- To assess the impact of changes in the health care industry such as the Prospective Payment System as well as to ensure the continuation of quality care provided to program beneficiaries.
- To develop an outcome-oriented survey process. HCFA has implemented a patient-care assessment tool in Skilled Nursing Facilities and Intermediate Care Facilities and believes that other facility types, e.g. Health Home Agencies, would benefit from a similar survey process. This contract will assist HCFA in developing a revised survey process for these facility types.
- To complement the Peer Review Organization (PRO) program by hiring health care specialists from various fields to analyze a wide range of complex activities.
- To utilize an industrial engineering contractor to study, through industrial engineering methodology and time studies, the functions performed by three Medicare Intermediaries in the processing of Medicare Part A claims.
- To conduct basic research on issues relative to the impact of the Medicare Hospital Prospective Payment System. The focus will be on the survey design, data collection and statistical analysis in close support of congressionally mandated studies conducted by HCFA.
- To study Medicare Hospice benefits to determine whether the reimbursement method and benefit structure is fair and equitable and whether it promotes the most efficient provisions of hospice care. The primary purpose is to provide cost data for the cross sectional and longitudinal analysis portion of the evaluation of the Medicare Hospice program.

HEALTH CARE FINANCING ADMINISTRATION

Estimates for Related Services

Account Title	Type 1/	Source of Funds 2/	Obligations			
			1985	1986 Appro.	1986 Current Estimate	1987
Program Management						
	MP					
	Admin. Costs	A	$ 293.0	$ 160.0	$ 144.0	$ 160.0
		N	625.0	340.0	306.0	340.0
	State Cert.	A	500.0	---	---	---
		N	---	---	---	---
	SA					
	Admin. Costs	A	---	85.0	76.5	85.0
		N	---	20.0	18.0	20.0
	State Cert.	A	593.0	500.0	450.0	500.0
		N	---	---	---	---
	RD					
	Research	A	993.0	1,000.0	900.0	1,000.0
		N	224.0	---	---	---
Total, Related Services			$3,228.0	$2,105.0	$ 1,894.5	$2,105.0

TOTALS:

	1985	1986 Appro.	1986 Current Estimate	1987
Management and professional services	$1,418.0	$ 500.0	$ 450.0	$ 500.0
Special studies and analyses	593.0	605.0	544.5	605.0
Management and support services for research and development activities	1,217.0	1,000.0	900.0	1,000.0
Total, Related Services	$3,228.0	$2,105.0	$ 1,894.5	$2,105.0

1/ Indicate MP for management and professional services, SA for special studies and analyses, or RD for management and support services for research and development activities.

2/ Indicate A for appropriated funds or N for non-appropriated funds.

NOTE:

These estimates reflect the reductions associated with Section 515 of the version of the Treasury-Postal Service and General Government Appropriation Act of 1986 included by reference in the full-year Continuing Resolution for FY 1986 (P.L. 99-190).

HEALTH CARE FINANCING ADMINISTRATION

Related Services

The Health Care Financing Administration plans to use approximately $1,894,500 in FY 1986 and $2,105,000 in FY 1987 for related services for the following activities:

- To continue the Second Opinion Hotline. This service has resulted in substantial savings in health care costs and has provided a needed service to health care beneficiaries.

- To oversee staffing and medical records in psychiatric hospitals certified for participation in the Medicare/Medicaid programs. The contractor will be responsible for providing qualified mental health consultants, scheduling and conducting surveys and providing technical assistance to providers, State agencies and HCFA.

- To continue the development and implementation of a Medicaid person-level data sets from five State Medicaid Management Information Systems. These data sets will be used to create uniform files, provide descriptive reports, support analysis and evaluation, and develop methodology for on-line data base management. This project provides a continuum of 6 years of uniform Medicaid data for the conduct of analysis of program management, evaluation of policy alternatives, and feedback to States in the area of Medicaid financing.

- To continue to develop a physician data base using survey data (such as the survey of physician practice costs and income), sample data from carriers, and research data in order to permit the reliable application of statistical methods for research and policy simulation and analysis.

- To establish a system that ensures that persons who evaluate health and safety conditions in health facilities are qualified to do so and are regarded as experts in their fields. This system would attest to a surveyor's competence to participate in the survey and certification process.

- To conduct claim processing audits independently or in conjunction with HCFA staff to identify and recover misspent Medicaid funds.

FRIDAY, MARCH 21, 1986.

OFFICE OF COMMUNITY SERVICES

WITNESSES

JERROLD B. SPEERS, ACTING DIRECTOR

SPENCER L. LOTT II, DIRECTOR, OFFICE OF STATE AND PROJECT ASSISTANCE

THOMAS F. WILLIAMS, DIRECTOR, ADMINISTRATIVE SERVICES

RICHARD W. L'ITALIEN, BUDGET OFFICER

DENNIS P. WILLIAMS, ACTING DEPUTY ASSISTANT SECRETARY, BUDGET, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. NATCHER. Now, at this time, we take up the budget request for the Office of Community Services.

We have before the committee at this time Mr. Speers, the Acting Director of the Office of Community Services. Before you give us your statement, tell us who you have with you at the table there.

Mr. SPEERS. Thank you.

On my left is Spencer Lott, Director, Office of State and Project Assistance; and on my right is Mr. Dick L'Italien, who is the Finance Officer for the Office of Community Services, and on his right Tom Williams, our Director of Administrative Service of the Office of Community Services; and Dennis Williams, Acting Deputy Assistant Secretary, Budget, Department of Health and Human Services.

OPENING STATEMENT

In the interest of time, Mr. Chairman, I will briefly outline my statement, and would request that the full statement be placed in the record.

Mr. Chairman, the Administration is requesting that the Community Service Block Grant program not receive any funds for the program itself in fiscal year 1987, but that it be funded with $3.6 million for administration for the purpose of closing out prior block grants and discretionary grant funds.

We make this request on the basis that the CSBG itself is duplicative of other Federal programs, and indeed multi-billion-dollar programs that serve the same target population, and that the CSBG is essential to neither the provision of the social safety net, nor to the continued existence of community action agencies which are the ultimate recipients of these funds.

The program is duplicative in that there are administrative costs that are provided for the other programs which the community action agencies administer.

They administer $2.4 billion worth of other Federal programs, each of which contain administrative costs allocations. It is also duplicative in that the same kinds of services that are being provided through other Federal programs are being provided through both the block grant and through the discretionary portions of this program.

The CSBG is not essential to either the social safety net for the poor or the continued existence of the community action agencies, because it represents less than 1 percent of the approximately $100 billion that the Administration is proposing in fiscal year 1987 for means-tested income-based programs, and the community action agencies administer only 15 such programs that have as the target population the low-income population of the country.

Only 15 percent of those services are provided by the community action agencies, so it is not essential to the safety net for the poor, nor is it essential to the existence of the community action agencies themselves.

Only 12 percent of the total funding that the community action agencies receive from the Federal budget is represented by the Community Service Block Grant.

The administrative costs of these other programs are available to community action agencies, and those agencies should not need the Community Service Block Grant to provide those administrative costs.

That is a general summary of my statement, Mr. Chairman, and I would be more than happy to answer any questions.

[The statement of Mr. Speers follows:]

DEPARTMENT OF HEALTH AND HUMAN SERVICES
Statement by the Acting Director of the Office of Community Services

Mr. Chairman and members of the Committee, thank you for the opportunity to appear before you today to discuss the Administration's FY 1987 budget request for the Office of Community Services. The request does not include funding for the Community Services Block Grant (CSBG) program, but does include $3.6 million for the closeout of block grant and discretionary activities of prior years.

In proposing to terminate the CSBG, we do not mean to imply that the work of the community action agencies (CAAs), which deliver services to the poor under the CSBG, has not been worthwhile. Quite to the contrary, we emphatically make the point that the termination of the CSBG is not a termination of the CAAs, and that effective CAAs will continue to benefit the poor without the necessity of funds from the CSBG. The question before Congress is whether the Federal Government can continue, in the context of the fiscal emergency addressed by Gramm-Rudman-Hollings, to fund a variety of programs which, like the CSBG, are not vital to programs that aid the poor.

Any program ought to be able to pass two tests: It must be unique, that is, non-duplicative of other programs, and it must be an essential program. The CSBG Program fails both tests.

The CSBG duplicates other programs in several ways: funds are often used to provide adminstrative costs for other programs which themselves are allowed administrative costs, and it provides the same kinds of services to low income persons as other federal programs in both the block grant and discretionary portions of the program.

The 860 community action agencies (CAAs) which receive nearly 90% of the CSBG appropriation use a substantial portion of this money to help defray administrative costs incurred in delivering programs, such as Head Start, energy assistance, and job training, which are supported from other Federal sources, rather than to provide direct services.

In fiscal year 1986, the CAAs received approximately $2.4 billion from such other federal programs compared to only $335 million received from CSBG funds.

Athough the exact percentage of this duplication of administrative monies is unknown, the National Community Action Foundation, a lobbying group which represents the CAA network, states that as much as 40% of CSBG funds is used for overhead costs and that at least half of this is used to supplement the administrative budgets of other programs. GAO reports have indicated that CAAs use a range of from $30% to even 100% of their CSBG funds for administrative purposes.

It should be noted that among the thousands of service providers which deliver these programs, the CAAs are the only ones which are able to use two sources of federal funds for administration. For example, 48% of the Head Start programs, 44% of the heating programs under LIHEAP, and 93% of FEMA's emergency food and shelter programs are delivered by organizations other than CAAs. The other providers of such services either find the administrative allowances for these programs adequate, or they are able to leverage additional administrative monies from non-federal scurces. Effective CAAs surely ought to be able to emulate these successes were the CSBG to be terminated.

A second kind of duplication found in the CSBG program is the use of block grant funds for direct services that are the same in kind as those provided under other federal funding authorities. Although the specific activities provided by CAAs under the CSBG may differ among the CAAs and from those provided by other sources of federal funding, the kinds of services provided---that is, those that are designed to lessen dependency and to attack the causes of poverty---are the same. Many of the same activities funded under the CSBG are funded as well under other federal programs, and the choice of the specific activities used to achieve the goals of the programs should be left to the local providers. Because the goals are the same and the specific activities used to achieve those goals may be the same, the CSBG clearly is duplicative of other, multi-billion dollar, programs. For example, in 1984 37% of CSBG funds were used for food and nutrition programs including such activities as transportation for the elderly to congregate meal sites, and delivering home meals to the elderly, ill and handicapped. But the Department of Health and Human Services also provides 650 area agencies on aging throughout the country with $336 million a year for congregate meals and $67 million for home-delivered meals. The money is used by 1,000 contractors (only 91 of which are CAAs) to both buy and prepare food, deliver it to the homes of the elderly through the "Meals on Wheels" program and to transport the elderly to congregate meal sites. Similar duplicative expenditures are found in many other categories of direct services paid for from CSBG funds.

In a period of mounting federal deficits, this kind of duplication is clearly unjustified. Congress, in authorizing and appropriating funds for social service programs other than the CSBG, did not assume a CSBG offset but provided sufficient funds to cover the federal share of all program costs, including those for administrative overhead and those for direct services. The use of two source of federal funds to deliver essentially the same kinds of programs inflates costs and produces inefficiencies at both the federal and state level of program administration. In addition, such duplication makes it extraordinarily difficult for state and federal evaluators to track the proper use of such funds or to assess the impact of expenditures on program clients and services.

The problem of costly overlap of social services delivery systems in general, at the State and local level, was noted by the Institute for Local Self Government in its report on the CSBG in June, 1982. The Institute commented: "The human services system in most States is a patchwork of categorical programs, block grant programs and combinations of the two. The way the system has developed over seventeen years has created problems of several programs providing the same services, clients that must recieve basic services from as many as five or more different programs and certain needy populations that receive no service at all."

In a similar vein, a 1983 National Governors Association report commented: "It is a misnomer to speak of a human services system. The enormous, costly effort to provide services to individuals is actually a patchwork of activities involving many different governmental agencies at the federal, State and local level. There is enormous duplication of services and widespread inefficiency in the system, along with a failure to produce the results expected."

Nowhere is this kind of duplication more apparent than in the case of the CSBG and Social Services Block Grant (SSBG). There is clear duplication in the sense that: (1) both block grants have as one of their principal purposes the delivery of the same broad kinds of services—"human" or "social" services; (2) both block grants serve essentially the same population—people who are indigent or who have limited income; (3) both block grants have in common the goal of decreasing dependence on public assistance and encouraging self-sufficiency; and (4) both block grants require duplicative regulations and administrative mechanisms at the federal and frequently at the state level.

It is clear, and it is important to emphasize, that the CSBG is not the only program that professes as its goal an attack on the causes of poverty as distinct from the maintenance approach of the typcial welfare program.

For example, the Social Services Block Grant Act clearly states one of its purposes to be the "encouraging of each state...to furnish services directed at the goals of (1) achieving or maintaining economic self-support to prevent, reduce or eliminate dependency (and) (2) achieving or maintaining self-sufficiency, including reduction or prevention of dependency...". Another federal program with a major purpose to move low income people toward self-sufficiency is the Job Training Partnership Act program.

An effort to consolidate the delivery of SSBG and CSBG services is already underway in a number of States. For example, a January 1982, report on the SSBC by the American Public Welfare Association notes that "Kentucky and Massachusetts are looking at ways to eliminate duplication of services provided under Title XX (now the Social Services Block Grant) and under the Community Services Block Grant" (parenthesis added).

Termination of the CSBG would not only accelerate the trend toward consolidation of CSBG and SSBG activities at the State and local levels, and render the delivery of services at these levels more efficient and less costly, but it would also produce significant savings at the federal level through the elimination of duplicative staffs and regulations. Finally, it would give the States much more flexibility in choosing providers and in developing a mix of services best suited to the unique economic and social needs of a particular State. For all of these reasons, we believe Congress should pursue the idea announced in the first sentence of the SSBG Act and merge the two block grants. The first sentence of the Act reads, in part: "For purposes of consolidating Federal assistance to states for social services into a single grant...".

Extensive duplication is also found in the "discretionary" portion of the CSBG Program. This portion, roughly 9% of the total, is used for direct federal grants to some 75-80 private and public organizations operating projects in such areas as community economic development, rural housing rehabilitation and repair, drinking water and waste water facilities improvement, and assistance to migrant and seasonal farmworkers. The activities supported by these projects are the same, in kind, as those supported from other funding sources within the Departments of Housing and Urban Development (HUD), Agriculture, Labor and the Environmental Protection Agency (EPA). For example, community-based organizations seeking funds for rural housing rehabilitation and repair projects are eligible for assistance from HUD-administered Community Development Block Grant (CDBG) Program. In FY 1985, roughly $208-260 million in CDBG funds was used for housing rehabilitation and repair projects in rural areas. Funds for such projects are included in the Administration's FY 1987 request for $2.625 billion for the CDBG.

Similar duplication is found in funding authorities for economic development projects. In FY 1985, over $500 million in CDBG funds was expended for economic development projects throughout the country that were no different in kind from those currently funded by the CSBG. Finally, the Department of Labor is requesting, for FY 1987, $58.2 million which can be used by private and public organizations to provide employment and training services for migrant and seasonal farmworkers.

The above figures yield but one conclusion: The duplication of administrative staffs and federal monitoring and auditing created by the discretionary authority of the CSBG Act is wasteful and unnecessary and constitutes another reason for terminating the CSBG.

The foregoing discussion has focused on the issue of duplication. The CSBG also fails the test of essentiality. It is essential neither to the provision of a social safety net for the poor nor to the continued operation of the community action agencies. Its funding represents only a fraction---less than 1%---of the multi-billion dollar programs, such as AFDC, food stamps, and Medicaid, which make up the true social safety net and which Congress has exempted from any reductions under Gramm-Rudman-Hollings. In its FY 1987 budget request, the Administration is asking for more than $80 billion for a variety of income-tested and need-based benefit programs. Nor are the CAAs the only providers of those programs. Only $17 billion of the $80 billion represents funding for approximately 15 federal programs which use CAAs, along with thousands of other public and private organizations, as service providers; and of those programs only about 15% of the benefits and services are provided by the CAAs. From such figures it is clear that the CSBG is hardly essential to the provision of the safety net for the poor and that none of the safety net programs would be seriously affected by termination of the CSBG.

Nor is the CSBG needed for the survival of those community action agencies which have been performing effectively. This is evident from the fact that the CSBG accounts, on average, for only 12% of CAA funding. Eighty six percent or $2.4 billion of CAA funds--- including money for salaries and operating expenses --- derives from other federal funding authorities. Only 2% was supplied by State and local governments and the private sector. To the extent that additional funds may be desirable to supplement programs administered by the CAAs, it is incumbent on these agencies to seek additional support from the state and local governments and to mobilize more private sector funds. State and localities are, in general, in much better fiscal shape than the federal government and should be able to provide more assistance than in the past for those community action agencies activities deemed essential by a a particular state or local government. According to a fiscal survey conducted in July, 1985 by the National Association of State Budget Officers, the nation's States ended FY 1985 with a balance of about $5.4 billion, while estimates for FY 1986 place the ending general fund balance at about $4.2 billion surplus.

The argument is often made that the CAAs utilize the CSBG to leverage other funds. Yet 86% of their funds derives from other federal programs with separate Congressional authorizations and appropriations and which would continue to be funded or not regardless of the existence of the CSBG. The termination of the CSBG would create a powerful incentive for true leveraging by the stimulation of private sector contributions and would probably result in a substantial increase in support from such sources.

In conclusion, Mr. Chairman, the proposal to terminate the CSBG is a proposal to eliminate a non-essential program which is simply duplicative of other far more substantial federal programs to help the poor. Its elimination would mean a savings of over $1 billion over a three year period. At a time when the Congress and this nation are desperately seeking ways to reduce and eliminate an annual deficit of over $200 billion, and when even truly essential programs are being asked to sacrifice, there is simply no justification for continuing to fund the CSBG.

Mr. NATCHER. Mr. Conte, I yield.

Mr. CONTE. I would like to welcome Jerry Speers before the Subcommittee. He has been here before, but this is his first appearance as the head honcho in the Office of Community Services.

Mr. Chairman, Mr. Speers came to Washington after a very distinguished career in Maine politics, and he has served this Administration very well. Mr. Speers, you have my highest regard. I knew Jerry when he was a little boy. I knew his father very well. His dad was head of the Fish and Wildlife Service up there. They are a good, solid family, Mr. Chairman. Welcome, Mr. Speers.

Mr. SPEERS. Thank you.

Mr. NATCHER. How long have you been the Acting Director?

Mr. SPEERS. Since last November.

Mr. NATCHER. What is the outlook for a permanent director?

Mr. SPEERS. I would say that the Secretary and the staff of the Department have been conscious of the number of acting positions that have been in the Department, and have been moving expeditiously to fill those positions.

I would assume the office would have a permanent director in the very near future.

Mr. NATCHER. Does this require Senate confirmation?

Mr. SPEERS. No.

CSBG AUTHORIZATION

Mr. NATCHER. There is no legislative authorization for appropriations for fiscal year 1987, is that correct?

Mr. SPEERS. That is correct.

Mr. NATCHER. Has there been any activity this session in either the House or the Senate with respect to an authorization bill?

Mr. SPEERS. Yes, sir. We have testified before the authorizing committees. I am not certain that a bill has actually been introduced to date, but I am aware of activity to draft such a bill and to have it introduced. That is not on behalf of the Administration.

It is on behalf of the members who are interested in continuing the program.

EFFECT OF GRAMM-RUDMAN-HOLLINGS BILL

Mr. NATCHER. You have a 1986 sequestration under Gramm-Rudman of $15,923,000. Generally speaking, what effect will this reduction have on the program?

Mr. SPEERS. The reduction is a 4.3 percent reduction across the board on the various components of the program, the 4.3 percent reduction in the block grant itself, a 4.3 percent reduction applied to each of the four portions within the discretionary program, and also a 4.3 percent reduction applied to the administration of the program.

Mr. NATCHER. Will there by any employee furloughs in the agency in 1986?

Mr. SPEERS. We have none planned.

1986 RESCISSION PROPOSAL

Mr. **Natcher**. You are proposing a 1986 rescission of over half of your remaining appropriation, or $182,139,000. At this point in the record, we will insert your rescission justification.

Given the fact that you are again proposing to abolish your program, why is it necessary to begin the reduction through a 1986 rescission rather than just waiting for the 1987 budget?

Mr. **Speers**. Mr. Chairman, it is an attempt to take a look at the 1986 budget, and to recognize the deficit that is in that budget, and to attempt to alleviate some of the problems with that particular deficit.

I might say that if the rescission were to take place, that it would not mean the immediate cessation of funds that are available to the States and to the community action agencies.

There is approximately 26 percent of the funds that have been granted in previous years which the States have not yet drawn down upon, so even if additional funds were not made available in the remaining portion of this year, there would be funds available to the States that have been granted in prior years upon which they could draw.

Mr. **Natcher**. How much of the State allotments have been given out to the States at this point?

Mr. **Speers**. There have been grants made that cover one-half of the year; the first and second quarter grants have been made.

Mr. **Natcher**. If Congress takes no action on the rescission, will you allot the balance of the funds to the States expeditiously?

Mr. **Speers**. Yes, sir. We have actually even drawn the grant documents, and they are awaiting the day upon which the OMB will give us an additional allocation for those funds.

Mr. **Natcher**. To your knowledge, Mr. Speers, are any States taking any close-down actions in anticipation of the rescission?

Mr. **Speers**. I am not aware of any such actions.

Mr. **Natcher**. For the past couple of years, the Department has submitted proposed legislation to amend the Social Services Block Grant Act to permit coverage of activities funded by the Community Service Block Grant.

Has any action been taken on this proposal in either House?

Mr. **Speers**. I am not aware of any action that has been taken on that proposal.

Mr. **Natcher**. Why has this proposal fallen on deaf ears, Mr. Speers?

Mr. **Speers**. Mr. Chairman, I guess I cannot offer an opinion as to why the Congress has not acted upon this particular proposal. I would say that the community action agencies have represented to the Congress that they feel these funds are necessary for their programs.

Time after time, I have sat through hearings and listened to the community action agencies presenting to the Congress the various programs they operate. They include Head Start, weatherization, low-income energy programs, Job Training Partnership Act programs.

And the point that the Administration is making is that all of these programs are operated by the community action agencies and all of them would continue to be operated, and provided by the community action agencies.

The Community Service Block Grant is not necessary for the continued viability of those particular programs. We would hope that there would not be confusion on the part of anyone with respect to this proposal, that we are intending that those programs would be able to be continued.

The Community Service Block Grant represents approximately 12 percent of the Federal funds that community action agencies receive. It is that 12 percent that we are saying is duplicative of these other programs, and is non-essential to the continued viability of the community action agencies.

Mr. NATCHER. Do you plan to try again this year?

Mr. SPEERS. We are proposing that there be no funds placed in the budget for 1987 for the Community Service Block Grant, yes, sir.

Mr. NATCHER. What is the current official government poverty level for a family of four?

Mr. SPEERS. Those guidelines, I believe, are $11,000 at the present time.

Mr. NATCHER. Does this block grant preserve only people at or below that income level?

Mr. SPEERS. The initial act did say it should serve individuals at or below the poverty level and was recently amended to allow the individuals at 125 percent of that level to be served.

TECHNICAL ASSISTANCE

Mr. NATCHER. What kinds of technical assistance, if any, does your office provide to the States?

Mr. SPEERS. We receive a number of questions every year with respect to what is necessary to be included in to the applications that are to be submitted to our office. We respond to those requests, and I believe in a very forthcoming manner, in helping the States to present an application which would cover the necessary requirements of the Act.

Mr. NATCHER. Mr. Hoyer, I yield to you.

Mr. HOYER. Thank you very much, Mr. Chairman.

I don't believe we know one another.

Mr. SPEERS. You and I are classmates at Georgetown Law School.

Mr. HOYER. I was going to observe, Mr. Chairman, if you were in A through K, we probably would have met, you were in L through Z, there were two divisions. I am continually chagrined by the fact that that is the way they organized us at Georgetown.

I was looking at your biography and we have a strikingly similar career. I started in the Senate, elected to the Senate in 1966, and you went to your State Senate in 1966.

You were on the NCSL Executive Committee, the same time I was President of the Senate. Even the ACYPL, I see you were active in it to some degree.

Mr. SPEERS. I was afraid you might have thought I made all of that up.

Mr. HOYER. Glad to see you here.

Notwithstanding all of that, we probably disagree on this particular proposal, I would imagine. Let me pursue some smaller issues first.

Last year, a number of the employees were concerned about the asbestos problem in your headquarters, and I understand you have not moved, but have taken actions to alleviate the problem in the North and Switzer Buildings.

Mr. **Speers**. We have moved from the Brown Building at 19th and M, and we moved last October to the Humphrey Building, not the North Building.

It is a direct result of the concerns of a number of the employees with the asbestos problem. The people who are responsible for the buildings and for the location of the offices placed us in the Humphrey Building instead of the North Building.

As a point of interest, I might comment that some of the employees who were most concerned have now indicated that perhaps the North Building wasn't quite so bad in comparison.

Mr. **Hoyer**. In any event, in your report here, you indicate that potential locations of ACM within the North Building and Switzer Building have been sought out and identified.

Is it your view or the employees' view that this problem has been taken care of?

Mr. **Speers**. It is my understanding that the Department has moved with respect to the asbestos, and there is cleaning of asbestos continually going on.

OCS STAFFING

Mr. **Hoyer**. OK, well, I appreciate your continuing concern in that area.

How many employees do you have now?

Mr. **Speers**. We have 55, both FTE and on board.

Mr. **Hoyer**. OK. What will happen to them if you are successful in your efforts to eliminate those positions?

Mr. **Speers**. The FTE we are proposing for fiscal year 1987 is set at 36, and we do expect that there will be a number of employees who would be eligible, in fact, 15 are eligible for early retirement.

We would hope that others might be placed in other areas of the Department. The recent reorganization that the Secretary has announced to create an operational division called the Family Services Administration, I would expect it would present some opportunities and some challenges for those employees, and that there hopefully would not be an actual RIF.

Mr. **Hoyer**. Would I be correct in saying you don't expect a RIF at this point in time?

Mr. **Speers**. We do not expect a RIF at this point in time. That is correct, Congressman. There is the ceiling of 36 that is being proposed, and that with the early out, however, and some other placements we would hope to avoid any RIF.

Mr. **Hoyer**. Has there been much discussion by your people on the annuity provision that is incorporated in the tax bill?

Mr. **Speers**. I have not been involved with the discussions on that.

Mr. **Hoyer**. You are not aware?

Mr. **Lott**. The only thing, we have had one person that has applied to go to training for early retirement, but that is the extent of it, just for information purposes.

Mr. **Hoyer**. Both Congressman Wolf and I have found a very substantial interest in those who are close to retiring, in the date on which that annuity treatment would change from taking your money out first to a prorated share on an actuarial basis.

Let me ask you a question, in response to a previous question, you indicated there were prior balances which had not been paid out on previous years' appropriations.

In effect, am I correct that this money is a carryover sum, and does not revert at the end of the year?

Mr. **Speers**. That is correct. The grants have been made, but the States have not drawn down on those funds.

Mr. **Hoyer**. They have been obligated, and there are no carryover funds that you have from prior years?

Mr. **Speers**. Right.

Mr. **Hoyer**. Obligated balances that you have?

Mr. **Speers**. Right.

Mr. **Hoyer**. Do they ever lapse?

Mr. **Speers**. No.

Mr. **Hoyer**. A State could get a grant in 1982 and drawn down in 1987, or does that not happen?

Mr. **Speers**. That has not happened.

Mr. **Dennis Williams**. Theoretically, those funds are not available in perpetuity. But it can take one to two years for the program to expend all the balances.

CSBG DUPLICATION

Mr. **Hoyer**. I understand. The larger question is this one: In talking to Maryland officials about this proposal, you are correct that the funds here are duplicative only from their standpoint that to the extent that they can be or there are administrative funds available in other programs, and these funds are in fact used in many instances as administrative funds to administer other programs.

They are not, however, duplicative to the extent that there is a one-for-one relationship. You continue to provide the same service with the absence of these funds that you are now providing.

Would you comment on that, because I really think, although it is theoretically duplicative, if you tell me that you are going to give me $100 for a car allowance, and you give it to me twice.

Now, presumably, if I have one car, then I have a $100 left over. If, on the other hand, you are providing services, Head Start, whatever, and from their standpoint, there is clearly a shortage of funds available for these individual programs, and you have additional monies that you can apply to administrative costs, they are not duplicative to the extent that they allow you to provide additional services?

Mr. **Speers**. I agree with your assessment. We certainly do not contend that if you eliminate the $335 million that goes into the block grant and gets passed through to the community action agencies, that it will have no effect whatever, because it will be $335 million that are not available for the provision of the services.

I suppose that the need would be such that there could almost be an argument that an infinite amount of money could be utilized to address that need.

What we are saying in our argument is that there is over $100 billion that the Administration is proposing for needs-based and income-tested services to low-income individuals in this country.

The CSBG at $335 million is less than 1 percent of the funds that are being made available, and that much of this goes into the Administration for the Community Services, or for the community action agencies.

Our point also is that the CAAs are not the only providers of those services to the poor. Yet, they are the only ones to receive Community Service Block Grant monies, almost a subsidy to this very identifiable group of providers, a very small number of the providers of social services in this country subsidizing their administrative costs.

That is not to say that they are not providing a good service, doing a good job for the poor. Yet, we question why this one identifiable group, 800 providers, should be singled out to be given additional funds for the provision of these services when other providers for Head Start, for example, have to live within the administrative funds that Congress has identified for the Head Start program.

Mr. **Hoyer**. All right.

Let me adopt your premise for a minute and assume that you are a legislator that believes that we are cutting back too severely on the domestic side. Here is a pot of $330-some million, and you say this is not the most effective way to direct the money, if you will.

How would we redirect it without cutting out the $330 million? If your premise is we are not spending enough, and we have $330 million going to the poor, how would we redirect it? I understand that is not your proposal.

You may not have an answer to that.

Mr. **Speers**. I will put the caveats on there.

Mr. **Hoyer**. We will grant you that.

Mr. **Speers**. If I were to answer that question, what I would say is that the $335 million ought to be divided up, or placed in whatever priority the Congress would want to place it in, among these other programs, and let all of the providers of these programs share in those additional funds.

The way that it is set up at the present time, the $335 million goes to the 800 community action agencies, where, as you might be interested in knowing, the community action agencies deliver only 55 percent of the Head Start program, for example.

Under emergency food and shelter under the FEMA program, in the past several years, community action agencies constituted only 7 percent of the participating organizations which were delivery organizations for those funds.

Under the Administration on Aging, where $400 million a year is spent for Meals on Wheels for the elderly, transportation, home-delivered meals, $400 million by the Administration on Aging, only 9 percent were delivered by community action agencies. And so I would answer that question by saying that if, given your premise that the $335 million ought to be spent for low-income individuals, then it should be divided up among those particular programs, added to those particular programs, and let all the providers of those programs share in those funds.

Mr. **Hoyer**. I would like to pursue that further but do not have the time this morning. I would like to pursue that further, not necessarily because I think that is what ought to be done, but if your premise is correct, and mine is correct, then we ought to pursue a differing alternative.

Mr. **Speers**. I would be happy to work with you on this, sir.

Mr. **Hoyer**. Thank you very much, Mr. Chairman.

DISCRETIONARY GRANTS

Mr. **Natcher**. Mr. Speers, we understand you awarded a $3.7 million discretionary grant in fiscal year 1985 to the D.C. Coalition for the Homeless, is that correct?

Mr. **Speers**. Yes, Mr. Chairman.

Mr. **Natcher**. What was the purpose of the grant?

Mr. **Speers**. $2.7 million of that was taken from the discretionary fund of the Community Service Block Grant for economic development. $500,000 of that was—Dennis, you might be able to help me, from the Administration?

Mr. **Dennis Williams**. On Aging.

Mr. **Speers**. Another $500,000 was taken from mental health funds.

Mr. **Natcher**. At the time, was this considered to be an economic development grant?

Mr. **Speers**. Yes, Mr. Chairman, it is not in the usual vein of the economic development. However, it is designed for taking some of the lowest-income individuals and attempting to give them an opportunity to find a job, and to make that opportunity available to them.

Mr. **Natcher**. Was this the largest single discretionary grant that you awarded in 1985?

Mr. **Speers**. That is correct.

Mr. **Natcher**. Were you advised by the Department's general counsel that this grant was in conformity with section 681 of the Community Service Block Grant Act?

Mr. **Speers**. Yes, sir, we were.

Mr. **Natcher**. For the record, if you will please provide a written statement that goes into detail a little bit more about this particular grant.

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In September 1985, HHS awarded a $3.7 million grant to the D.C. Coalition for the Homeless to provide shelter for 600 individuals. The grant consisted of $2.7 million in Community Services Block Grant (CSBG) funds, $500,000 from the Administration on Aging, and $500,000 from the National Institute on Mental Health.

The CSBG funds were awarded from the discretionary funds for economic development. The Coalition proposal qualified for this grant award based on its proposal to deal with the problems of homelessness in Washington, D. C. The Center for Applied Research and Urban Policy of the University of the District of Columbia recently estimated the homeless population in Washington to be in the range of 4,500-6,500 individuals. Some of the major reasons cited for homelessness are the lack of affordable housing, the lack of accessible residential community based mental health services, and the lack of labor skills and opportunities.

One of the major goals of the Coalition is to remove an individual from the ranks of the homeless through placement in economically independent working or living situations. This will be accomplished through intensified counseling and placement search efforts for those who are prepared for re-entry. An ongoing attempt to develop low-income housing stock and skilled and unskilled employment opportunities will be conducted by staff employment and housing placement specialists who will work closely with the District of Columbia business community and public agencies in securing appropriate jobs and adequate housing. Other major components of the Coalition proposal include health care, mental health counseling, and programs for aged, in addition to basic sheltering and provision of three daily meals.

Now, off the record, Mr. Speers.

[Discussion off the record.]

Mr. NATCHER. Mr. Hoyer, anything further?

Mr. HOYER. No, nothing further.

Thank you very much, Mr. Chairman.

Mr. NATCHER. Mr. Speers, we want to thank you and your associates for appearing before our committee at this time in behalf of your budget request for fiscal year 1987. This has been a good hearing, and thank you very much.

The committee will now recess until 2:00.

[The following questions were submitted to be answered for the record:]

TRAINING AND TECHNICAL ASSISTANCE

Mr. Natcher: Are the States providing much technical assistance to local grantees? 7b

Answer: States are responsible for providing the technical assistance and program guidance to their local grantees. Such activities are part of the States' management and oversight responsibilities. And based on state submissions for OCS funding, it is our belief that many States provide some form of technical assistance to local grantees.

The types of assistance vary by State and the following are examples of the kinds of assistance offered by States in FY 1984:

1) Kentucky - added a staff member with fiscal and audit experience who provided training and technical assistance (T&TA) to community action agencies (CAAs) in these areas.

2) Washington - provided T&TA to CAAs to improve the general effectiveness and efficiency of their program services for low-income persons.

3) Iowa - conducted on-site visits and made recommendations concerning program operations to all sub-State grantees.

4) New York - established separate CSBG field staff to provide additional on-site T&TA, to mobilize other resources and expand programs as well as to improve fiscal systems and reporting.

Mr. Natcher: Could you provide for the record an estimate of the number of employees involved in administering the block grant at the State and local levels? 8

Answer: The most current information concerning the State employment using CSBG funds is that contained in a report on FY 1984 CSBG operations in 42 States. This report was prepared by the Center for Local and Community Resources (under a grant from the OCS and is known as the National Voluntary Reporting System). According to the study, there were a total of 467 positions at the State level paid in whole or in part by CSBG funds.

According to a study published in September, 1985 by the National Community Action Agency Directors' Association (NCAADA), CAAs received 92% of the CSBG allotment that passed to the States for anti-poverty programs. Survey responses sent in to NCAADA in July, 1985 indicate that the average number of employees per CAA was 123. If the average for 366 CAAs were to be extrapolated for all 900 CAAs, the total employment figure would be 110,700.

CSBG EVALUATIONS

Mr. Natcher: How does your agency conduct evaluations of the block grant each year. 9a

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Answer: Each year the agency conducts ten (10) Program Implementation Assessments (PIA) in ten States to examine the extent to which the States have implemented the legislative assurances they have certified they would meet, and reviews the States' policies and procedures for managing the implementation of the assurances.

Mr. Natcher: Are these evaluations submitted to the Congress? 9b

Answer: Yes. In addition to submissions to the Congress, they are sent to the Secretary, Department of Health and Human Services, and the Governors of the States in which assessments were conducted.

Mr. Natcher: What audit requirements are placed upon the States? 10a

Answer: Audit requirements are established by statute and are set out in the Single Audit Act, P.L. 98-502. The Single Audit Act requires units of State and local government to conduct a single audit of all Federal financial assistance received in a fiscal year. By the express terms of the Act, these "single audits" are to be conducted in lieu of the separate program audits required by other provisions of Federal law. Consequently, the Single Audit Act generally overrides the separate audit requirements of the block grant statutes, including the two year audit option presently contained in the CSBG statute.

The submission of reports for Single Audit Act audits as discussed in OMB Circular A-128, is required within one year of the end of the audit period.

Mr. Natcher: Does your agency review these audits? 10b

Answer: The OCS is ultimately responsible for audit resolution. However, initial responsibility for audit resolution is at the State level. Each audit received by OCS is reviewed to insure that the State has performed its function in compliance with the legislation. Only if the State does not perform this function, will OCS undertake audit resolution directly.

DISCRETIONARY GRANTS

Mr. Natcher: For the record, provide a list of all disretionary grants awarded in fiscal 1985. 11a

Answer: See Attachment A, pages 1 through 8.

Mr. Natcher: How many grantees do you have? 11b

Answer: In fiscal year 1985 there were 76 discretionary grants awarded to 73 grantees.

Mr. Natcher: How are these grant applications reviewed by your office? 12

Answer: The applications are received once every fiscal year in response to an announcement in the Federal Register. After the announcement's closing date, the applications which have been

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submitted are packaged and sent throughout the country to independent field reviewers. Each reviewer receives ten applications (and each application is sent to 5 reviewers) which must be reviewed and scored based upon the criteria and attendant scores which were published in the Federal Register announcement. After reviewing and scoring, the reviewers return the applications and the review/score sheets to the OCS, Grants Management Division. The Grants Management Division reviews the scores and prepares a listing of applications in each priority area in rank order based upon the average scores from the 5 reviewers. After the rank order listings have been completed, the applications ranked highest on the lists are subjected to internal staff reviews by the OCS Division of Discretionary Grants staff. The Division of Discretionary Grants staff then makes presentations along with a divisional recommendation to the Director of OCS in rank order until he approves enough grants to use the available funds. Some applications which rank high may be passed over in the course of the Director's review based upon staff recommendations or because of information not considered by the independent reviewer (audit problems with other federal agencies, failure to document matching funds, questionable impact on low-income people, etc.). For the most part those applications which rank the highest are the ones which receive grant awards.

Mr. Natcher: How much in total did you award for community economic development activities in 1985? 13a

Answer: $19,920,000 was awarded in fiscal year 1985.

Mr. Natcher: Can you give us one or two examples of the kinds activities that were funded? 13b

Answer: Rehabilitation of an historical landmark building into office and retail space in which nine small businesses employing 50 people will be relocated. OCS grant funds - $400,000; matching funds from private sources - $3,000,000.

Purchase of facility and equipment and provision of working capital for a kiln-drying hardwood lumber facility. OCS grant was responsible for creation of 82 jobs plus a reliable market for local lumbermen. OCS grant funds - $750,000; matching funds from private sources (foundations - $690,000; bank financing - $550,000).

In addition to these examples, the community economic development activities of OCS include a wide range of projects such as the manufacture of windows for airplanes for Boeing Aircraft, storm windows and doors, scientific laboratory furniture and fixtures, production of high protein cattle feed for export, development of shopping centers and supermarkets and rehabilitation of commercial and industrial space.

Mr. Natcher: Do you tend to fund pretty much the same grantees each year? 13c

Answer: No, not to any significant extent. Starting with fiscal year 1982 when the OCS discretionary program began, the OCS has funded a total of 167 grants in community economic development. Three grantees have received grants in each of the 4 fiscal years.

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Five others have received grants in 3 of the four fiscal years, and 20 grantees have received grants for different projects in two of the four fiscal years, though not necessarily consecutive years. Thus, only 28 of the 167 grants that have been awarded have gone to the same groups in more than one fiscal year.

FEDERAL TASK FORCE ON THE HOMELESS

Mr. Natcher: Does your office still support the Federal Task 14a Force on the Homeless?

Answer: Administrative funds are provided for salaries and expenses of support staff to the Federal Task Force on the Homeless.

Mr. Natcher: How much do you budget for this - both staff 14b and dollars?

Answer: The fiscal year 1986 budget includes $311,000 and 6 positions in support of the Task Force.

RURAL DEVELOPMENT LOAN FUND

Mr. Natcher: Has the Rural Development Loan Fund now been 16a transferred to the Department of Agriculture?

Answer: The Food Security Act of 1985 transferred the RDLF to the Department of Agriculture (DA) as of December 23, 1985. Arrangements are now being finalized with DA for the transfer of funds, and loan documents.

Mr. Natcher: How much money is now in the Fund? 16.b

Answer: The current unobligated balance of the Fund is $11,648,300.

Mr. Natcher: Does HHS have any further involvement with this 16C Fund?

Answer: Recently enacted legislation has transferred the program to the Department of Agriculture, and HHS no longer has authority for its administration.

Mr. Natcher: What are you proposing to do with the community 17a.b development credit union loan fund? Are you proposing a 1986 recission for this fund?

Answer: The Administration intends to rescind $2,635,489 in unobligated balances in the CDCULF. There has been no new loan activity since December 1983, and none is planned.

OCS REORGANIZATION

Mr. Conte: The Office of Community Services has been proposed 1 for inclusion in the new Family Services Administration. To your knowledge, will that require legislation?

Answer: No. Legislation is not needed to include the Office

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of Community Services in the new Family Support Administration. The reorganization is proceeding under the authority of Section 6 of Reorganization Plan No. 1 of 1953, and other authorities vested in the Secretary of HHS.

Mr. Conte: Presumably, this could be the last separate appearance of the Office of Community Services before the Subcommittee. Are there any details yet, of when or how the transfer will take place or on the number of positions that will be established? 2a

Answer: The new Administration has been formally established by a notice in the Federal Register on April 4, 1986. A task force is being established to work through the details of the reorganization. Information on the new Family Support Administration will be made available as decisions are made.

Mr. Conte: Do we know how this transfer will affect the budget for OCS in FY 1986 or FY 1987? 2b

Answer: The transfer will be budget neutral with respect to FTE and funding levels for FY 1986 and FY 1987 for all six units which will comprise the Family Services Administration.

NATIONAL YOUTH SPORTS

Mr. Conte: I see our program, National Youth Sports, is again an orphan in this year's budget proposal. I take it my co-promoter of the program, the President of the United States, still does not know that this program isn't in the budget. Any word on what the film he and I starred in has meant in terms of promotion of the program or funding-raising? 3,4

Answer: Video-tape copies and 16MM copies were sent to each of the 141 participating institutions. The NCAA has had very positive responses to the film in terms of participants and has been very successful in informing communities and local businesses with a total perspective on the National Youth Sports Program for purposes of requesting services and funding support.

Mr. Conte: You haven't heard whether that film has been nominated for any Oscar, have you? 5

Answer: Not to our knowledge, but we have heard rumors to the effect that at least two of the actors were nominated for outstanding supporting actor awards based on their excellent performance.

Mr. Conte: Tell us how many children participate in that program, and how many colleges are involved in putting on this program? 6

Answer: In the summer of 1985, 56,986 children participated in the program at 141 participating colleges and universities. These programs were sponsored in 122 cities in 45 states. The National Youth Sports Program employed 1,205 professionals, 1,516 project aides and 736 supporting personnel this past summer.

Mr. Conte: What amount of cost-sharing is there in the program? 7

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Answer: There is no cost-sharing requirement for the National Youth Sport Program. Over the years, however, the participating schools have provided approximately $4 million per year. This past year with final reports in from only 92 colleges and universities, $5,851,212 has been raised in non-federal funds. All indications are that they will reach or exceed $8 million this year. In addition, $1,226,445 has been provided by other foundation and business donors and the National Collegiate Athletic Association itself has provided more than $310,000 for administration, transportation, orientation workshops and evaluation costs. Thus, we believe these activities would continue to be supported without federal funding.

COMMUNITY FOR NON-VIOLENCE SHELTER

Mr. Conte: Recently the papers have indicated that HHS has agreed to provide about $5 million for the renovation of the homeless shelter here in Washington run by the Community for Non-Violence. The last time the federal government paid for renovations to open up the shelter, the figure that I recall, $2.5 million, came out of the discretionary funds in OCS. Will that $5 million come out of OCS, and if not, does the Departmental representative know where it will come from? 8

Answer: In fiscal year 1985, a total of $3,700,000 was awarded to The Coalition for the Homeless, Inc., to operate a homeless shelter in the Anacostia section of Washington, D. C. The grant included funding from the OCS discretionary program in the amount of $2,700,000; $500,000 from the Administration on Aging; and $500,000 from the Alcohol, Drug Abuse, and Mental Health Administration.

There is a current Department proposal to provide $5,000,000 for renovation of the homeless shelter at 2nd and D Streets, N. W., Washington, D. C., which is operated by the Community for Creative Non-Violence. The proposal includes funding of $965,000 from OCS discretionary funds and $4,035,000 from the Health Resources and Services Administration.

HOMELESS ACTIVITIES

Mr. Conte: This year, your budget does not reflect the 5 positions or so that last year were presented as staffing the Task Force on the homeless. Does that task force still operate? 9a

Answer: The Task Force on the Homeless is still in operation. The current HHS budget includes $311,000 of administrative funds for salaries and expenses of 6 positions in support of the Task Force.

Mr. Conte: Is the OCS engaged in any homeless-related activities? 9b

Answer: The only direct involvement OCS has with homeless program activities is providing administrative funds for the Task Force support staff of six employees. However, an indeterminate portion of CSBG allocations to the States is applied to problems of the homeless as determined by the Governors and CAAs. (More details follow in the next answer.)

Mr. Conte: What amount of the CSBG funds do you estimate are 10

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used for programs aiding the homeless?

Answer: Under the CSBG Act, States are authorized to use funds to help low-income individuals and families "obtain emergency assistance...to meet immediate and urgent individual and family needs, including the need for health services, nutritious food, housing and employment-related assistance" and to "to provide on an emergency basis for the provision of such supplies and services, nutritious foodstuffs and related services as may be necessary to counteract conditions of starvation and malnutrition among the poor". Clearly, therefore, there is authority for using CSBG funds to help the homeless.

On the other hand, the degree to which CSBG funds have actually been used for homeless persons is not known. OCS does itself not collect information from CAAs on their activities. In December, 1983, the National Association for State Community Services Programs estimated that around 20% of CSBG funds were used locally for the kind of emergency activities described above, but the Association was unable to distinguish between emergency services provided to those still in their homes from those provided to the homeless. A report on CSBG operations in FY 1984 prepared by the Center for Local and Community Research showed 37 States spent an average of 14.2% of their CSBG funds for emergency services including health services, food, housing and employment-related assistance and in some instances, cash assistance to avert immediate crises. The information does not indicate how much assistance was provided to those among the poor who are homeless.

Historically, CAAs---which receive the bulk of CSBG funds---were not known to focus on the needs of the so-called "street people", nor have they been in the forefront of efforts by local shelter and soup kitchen operators to address the homeless crisis during the past several years. The CAA role, for example, has been rather limited in the Emergency Food and Shelter Program operated by the Federal Emergency Management Administration (FEMA). In FY 1985, of the 6,000 local organizations administering the FEMA program, CAAs numbered only 467. That is, only 54% of CAAs were selected by local boards to participate in the program and these CAAs constituted only 7% of the total number of participating agencies.

COMMUNITY SERVICES BLOCK GRANT

Mr. Conte: In 1985 and 1986, a number of the Community Action Agencies have been celebrating their 20th anniversaries. Have you folks here in Washington been engaged in any activities to help focus attention on this significant anniversary of these anti-poverty activities? 11

Answer: No current activities are planned by the Washington office to celebrate the anniversaries.

Mr. Conte: Your statment focuses quite a bit on that portion of the CSBG funding that is used to help in the administration of the various community programs aimed at assisting low income people. One of my local CAPs visited me recently, and gave a couple of examples. For instance, the surplus Commodity Distribution Program, 12

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which distributes cheese and other commodities, provides only 1.5% administrative money, which, the CAP Director said, is not even enough to finance the government-required audit, let alone run the program. Without CSBG funds, they just could not afford to run the program. Is that an unnecessary and duplicative administrative cost, in your opinion?

Answer: Community action agencies (CAAs) frequently cite the limited administrative monies available in USDA's surplus commodities distribution program as proof of the claim that CSBG funds are needed by CAAs to help administer other federal programs. But the USDA program is only one of approximately fifteen federal programs which use CAAs, among many other local non-profit organizations, to deliver services to the poor. All of those other programs contain in their budgets ample funds for administrative costs. For example, the overhead allowance for Head Start is 15%, for the Community Development Block Grant 20%, for LIHEAP 10%, for JTPA 15%, etc. For nearly all of the $2.4 billion worth of federal programs delivered by CAAs, therefore, the CSBG, as a source of administrative money, is duplicative and therefore unnecessary.

The commodities distribution program, on the other hand, presents a different case. Under this program, USDA makes available each year approximately one billion dollars worth of surplus foodstuffs to organizations serving the poor. The federal government not only pays for the initial purchase and storage of these commodities, but bears the entire administrative burden of packaging them in sizes convenient for households and shipping them to the States. In 1983 Congress provided, through the Temporary Emergency Food Assistance Program (TEFAP), an additional $50 million to be used for administrative costs at the State and local level. However, given the size of the Federal contribution to the basic program and the urgent need to pare back Federal spending, the Administration is requesting termination of TEFAP in FY 1987.

We do not believe that termination of TEFAP and the CSBG will materially affect the commodities distribution program. Prior to the enactment of TEFAP, the commodities program was successfully operated for over a year, using only State, local government and private resources including volunteers. In the peak month---March 1983---for example, 57 million pounds of cheese was distributed as compared with the current monthly average of 35 million pounds. Not only were local providers able to do this without TEFAP funds, but many did not have the use of CSBG funds. Thirty percent of the commodities, for example, were (and still are being) distributed by food banks which rely almost exclusively on non-federal funds.

States and localities are in general, in better financial shape now than they were in 1983 and certainly in much better shape than the federal government. According to a fiscal survey published in March, 1986 by the National Association of State Budget Officers, the nation's states ended FY 1985 with a balance of $4.3 billion (as compared with $2 billion in 1983), while estimates for FY 1987 place the ending general fund balance at about $3.1 billion. An additional $2.6 billion is projected for the 29 States which have established "rainy day" funds. To the extent that States and localities assign a high priority to the commodities distribution program, they should find it possible, using their own funds and volunteers, to continue to operate the program without either CSBG money or USDA support beyond that provided to package the food and deliver it to the States.

13 Mr. Conte: Have you ever looked at what expenses used for administrative purposes are unnecessary? All the CAPs I've ever visited did not look bloated in terms of administration to me. And I can tell you they're not overpaid. Many of the CAP employees I was told, are eligible for many of the programs they administer, because their salaries are so low.

Answer: The Community Action Foundation concedes that as much as 40% of the CSBG is used for administrative overhead. Several GAO reports have indicated that CAAs use a range of from 30% to even 100% of their CSBG funds for administrative purposes. Most of the money so used is for some fifteen federal programs, such as Head Start and LIHEAP, for which Congress has already appropriated administrative monies. The interesting point to note here is that these programs use, as service providers, many other organizations besides CAAs, and that these other providers either find the administrative allowances already provided for these programs adequate, or they are able to leverage additional administrative monies from non-federal sources. CAAs are the only providers which are able to use two sources of federal funds for administrative support of the same program. The redundancy of CSBG funds does not necessarily mean that some individual CAA employees are overpaid, although it might mean that some CAAs are, when compared with other service providers, either overstaffed, insufficiently frugal in other expenditures or less successful in raising funds from non-federal sources.

14 Mr. Conte: Have you ever tried to figure out what would happen to all the programs in which the CAPs play a role, such as energy assistance, Head Start and so on, if the CAPs weren't around to administer them?

Answer: If CAAs were not around to administer the various federal programs, such as Head Start and LIHEAP, in which CAAs now play a role, the programs would continue to be offered by other service providers. It is important to put the role of the CAAs in perspective. Of the approximately fifteen federal programs in which CAAs are involved, totalling $17 billion, CAAs deliver only 15% ($2.4 billion) of the services provided to the poor under these programs. CAAs are neither the "keystone" nor the "glue" which assures the delivery of such services. To cite a few examples, 40% of the Head Start programs, 44% of the heating programs under LIHEAP, 91% of the Meals on Wheels programs and 93% of FEMA's emergency food and shelter programs are delivered by organizations other than CAAs, and in many instances these organizations are able to deliver services at less cost to the federal government than CAAs.

We believe, however, that termination of the CSBG would not cause very many CAAs to close their doors. Those CAAs which are now performing effectively should be able to sustain a 12% cut in FY 1987 (the percentage of their budget represented by the CSBG), and compete successfully with the thousands of other service providers who are able to operate the same programs without the benefit

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of CSBG funds.

Mr. Conte: One of the things that I'm trying to get a handle on this year is what happens to that portion of block grants that goes to the state as a set aside. How much is the state set aside currently, and how much of that is for non-administrative purposes?

Answer: The Block Grant Act allows States the discretion to retain and use for other purposes up to 10% of its CSBG allotment. Of this amount not more than the lesser of $55,000 or 5% can be used for administrative expenses. The remaining 5% may be used to fund services under the Older Americans Act of 1965, the Head Start Program, the Energy Crisis Intervention Program and the Temporary Emergency Food Assistance Act of 1984 or to fund discretionary projects and activities related to the purposes of the Act.

Mr. Conte: Do you have information available, for instance, on how all the states use their set aside? 15b

Answer: Yes. According to State CSBG applications for FY 1986, most States will use 5% of their set aside for administrative expenses. The remaining 5% of their set aside will be used to fund services and projects for the low-income in areas not covered by an existing "eligible entity," to support special programs and innovative projects such as economic development, housing, statewide efforts, Head Start, low-income home energy assistance and/or training and technical assistance for its' subrecipients.

Mr. Conte: Can you give me an accounting of what Massachusetts did with its non-administrative set-aside? Can you give a list of all the different grants and awards it made? 15c

Answer: According to the CSBG application, the State of Massachusetts for FY 1985 and FY 1986 set aside five (5) percent of its CSBG allotment for "Special Projects." A portion of the Special Projects was to be used to support community economic development activities carried out by non-profit, community-based development organizations and designed to provide housing, employment and income creation opportunities for low-income residents of the Commonwealth. The remainder of the Special Projects funds was awarded to grantees under a competitive proposal process. Each year the Executive Office of Communities and Development targets certain priority areas of need and releases a Request for Proposal (RFP) open to all community based non-profit agencies in the State. The proposals selected for funding will be those having the best potential to address priority issues and to demonstrate innovative approaches to anti-poverty.

As of April 1, 1986, the State has received numerous proposals which are presently under review. No awards have been made pending the completion of the review process by the State.

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TERMINATION OF THE CSBG

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Mr. Early: Mr. Speers, in your opening statement, you say, "In proposing to terminate the CSBG, we do not mean to imply that the work of the community action agencies (CAAs), which deliver services to the poor under the CSBG, has not been worthwhile". Will you summarize some of the accomplishments of CAAs which HHS feels have been worthwhile?

Answer: Of the total range of activities conducted by CAAs, roughly 12% are supported by $335 million from the CSBG, 86.6% by $2.4 billion from approximately fifteen other federal funding authorities and 1.4% from state and local governments and the private sector. A substantial portion of the $335 million from the CSBG is used by CAAs to help administer the array of other federal programs. This use of CSBG funds makes it extraordinarily difficult to distingquish what CAAs have accomplished uniquely through the CSBG and what they have accomplished through use of other funds.

The difficulty was noted by the GAO in a report on the CSBG issued in September 1984. The report reads: "Discerning the exact impact of the block grant was often difficult because many providers, which varied in size and scope, used federal community services funds to administer other programs, and the link between CSBG funding changes and program changes was obscure. Moreover, the relationship between CSBG and changes in providers' operations was clouded by other dynamics, such as changing client needs and local economic conditions, as well as fluctuations in other funding sources."

Although the first of five objectives listed for CAAs in the CSBG Act is to provide services that "have a measurable and potentially major impact on causes of poverty", we are aware of no studies that provide evidence that CAAs, during the twenty years of their existance, have contributed in any significant degree, to the elimination of poverty in the U.S. By and large, CAA accomplishments lie in the field of palliating the effects of poverty through the provision of a range of social services funded under such programs as weatherization, Head Start and energy assistance, elderly nutrition, summer youth employment, etc.

Accomplishments of CAAs in the area of social service delivery are described in a report prepared by the Center for Local and Community Research in 1984 and in another study conducted by the National Community Action Agency Directors' Association in September, 1985. While both of these agencies are interested parties, we have no reason for believing that CAAs overall have not been doing a good job as service providers, and that most of the activities they engage are worthwhile. The CAAs make up an important although relatively small complement to the thousands of non-profit and public agencies which administer 85% of the federal programs in which CAAs are involved. We believe that CAAs are effective providers of services under these programs but that the presence of a second source of federal funds for CAAs, namely the CSBG, inflates costs unnecessarily. The elimination of the CSBG would put CAAs and other service providers on the same footing and we have no doubt that the majority of CAAs would survive and continue to perform as effectively as their competitors.

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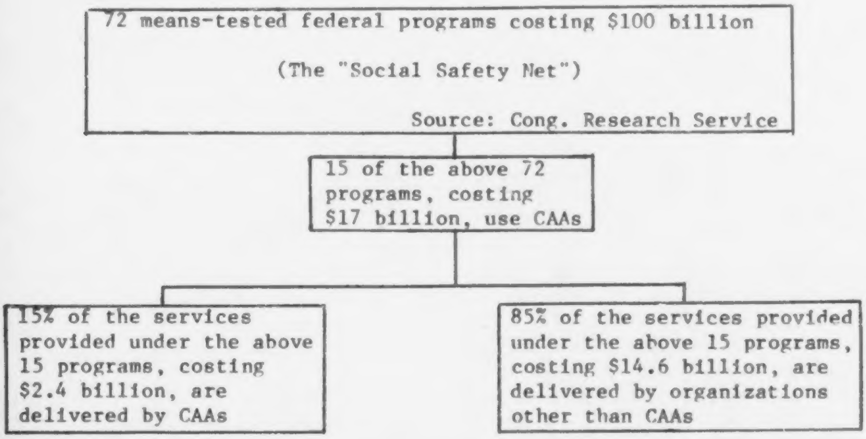
Mr. Early: You also state that the CSBG is not vital to programs that aid the poor. To what extent do service delivery networks, other than CAAs, exist at the local level and can they provide the range of services or assistance that CAAs provide?

Answer: The following diagram will help put the role of the CAAs in perspective.



72 means-tested federal programs costing $100 billion

(The "Social Safety Net")

Source: Cong. Research Service

15 of the above 72 programs, costing $17 billion, use CAAs

15% of the services provided under the above 15 programs, costing $2.4 billion, are delivered by CAAs

85% of the services provided under the above 15 programs, costing $14.6 billion, are delivered by organizations other than CAAs

As can be seen from the above diagram, alongside the CAAs are thousands of other organizations at the local level delivering to the poor the same types of services funded from the same federal programs, as are delivered by CAAs. They are not only able to provide, collectively, the same range of services as the CAAs, but they are frequently able to do this at less cost to the federal government since, unlike the CAAs, they cannot tap an extra source of federal funds for administrative overhead.

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Mr. Early: Won't the ability to deliver services to the poor and low-income individuals at the local level be adversely affected if the CSBG is terminated? It not, why don't you think this will be the case?

Answer: The answer to the previous question makes clear why we believe that termination of the CSBG would not seriously affect the delivery of services to the poor at the local level.

First, the $370 million which was appropriated for the Community Services Block Grant in fiscal year 1986 represents only a fraction---less than 1%---of the approximately $100 billion in federal funds expended each year for income-tested and need-based benefit programs, such as AFDC, food stamps, SSI and medicaid, which constitute the federal portion of the public welfare system.

Second, community action agencies are involved as service providers with only fifteen or so of the 70-odd benefit programs in question.

Third, community action agencies deliver only 15%---or $2.4

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billion of the $17 billion dollars worth of benefits and services provided under the fifteen programs. These programs utilize, besides the community action agencies, thousands of other public and private organizations as service providers. Therefore, even if termination of the Community Services Block Grant meant termination of the community action agencies (an outcome which is hardly likely since the Block Grant represents only 12% of the agencies total funding), delivery of services under the fifteen programs would not be materially affected. The programs would simply use other providers.

4

Mr. Early: One of the reasons given for the termination of the CSBG is that it provides the same kinds of services to low-income persons as do other federal programs. One example cited is the Social Services Block Grant. However, last year, in response to the proposed elimination of the program, the National Council of State Human Services Administrators disagreed with this assertion. They noted that when the CSBG and the SSBG were enacted in 1981, each was statutorily established with a different program purpose. They further noted that the purpose of CSBG is to provide funds for community-based programs offering health, nutrition, housing and employment related services; while the purpose of the SSBG is to provide funds to states to assist individuals to achieve and maintain self-sufficiency, to prevent unnecessary institutionalization, to protect children and vulnerable adults from abuse, neglect and exploitation, and to preserve, rehabilitate and unite families. This doen't sound like duplication to me. How can you say the programs are duplicative when their purposes are different?

Answer: We believe that while there are some differences between the CSBG and the SSBG, these are minor and do not justify two entirely separate administering bureaucracies and two sets of regulations at the federal level and, in many cases, at the State level. The overlapping character of the two grants is found in the statutory purposes of each grant, the populations served and the types of services provided.

With respect to the statutory purposes, while it is true that the CSBG provides funds for "community -based programs offering health, nutrition, housing and employment-related services", the CSBG Act requires these services to be provided in order to "ameliorate (i.e. attack) the causes of poverty in communities within the States". Elsewhere, the statute directs that CSBG funds be used for "a range of services and activities having a measurable and potentially major impact on causes of poverty in the community". This underlying purpose of CSBG activities is quite consistent with the historical objective of community action agencies which was "to focus resources on the goal of enabling low-income people to become fully self-sufficient" (Economic Opportunity Act of 1964, as amended).

The first two of the five statutory goals of the SSBG also relate to the achievement of self-sufficiency. According to the statute, SSBG services are directed at:

"(1) Achieving or maintaining economic self-support to prevent, reduce, or eliminate dependency;

(2) Achieving or maintaining self-sufficiency, including reduction or prevention of dependency."

It has been pointed out that the term "poverty" does not occur in the SSBG statute, but we believe this is a mere quibble. The CSBG Act speaks of attacking the causes of poverty while the SSBG Act seeks to reduce or eliminate dependency. Dependency is a consequence of poverty. To combat one is to combat the other.

The creation of two block grants, incidentally was largely due to the fact that many different committees were involved in the preparation of the OBRA. In the process of creating the OBRA, the House did, in fact, pass a Social Services Block Grant which included the Community Services program, as the Administration had proposed. Because of committee jurisdictions, the CSBG and SSBG were taken up in separate conference action, resulting in the inclusion of both programs in the OBRA. This does not mean that Congress necessarily intended the two block grants to complement each other.

Not only is there a convergence in purposes between the two grants, but also in the populations served. Although the CSBG is directed by its statute toward persons below the poverty line while the SSBG specifies no income limitations, under both grants services are in fact targeted to the indigent or to people who have very little income, and both grants serve all categories of poor people: single adults, children, families and elderly persons.

Finally, there is a basic similarity in the types of services provided under the two grants. Both provide "human" or "social" services to the young and old, to the able-bodied and the disabled, all of whom lack sufficient income to meet their needs, whether this lack be temporary or permanent. When we argue that there is a duplication of services between the two grants, we do not mean that there is any significant amount of duplication in the exact services offered. In its recent report on the CSBG, the GAO found only one instance of this kind of duplication, where a county welfare department in Mississippi was making cash payments to help poor persons meet utility bills, while a local CAA was making similar payments. Although CAAs do use CSBG funds for this kind of duplication with respect to other federal programs ("Meals on Wheels", for example, are funded from both CSBG and Administration on Aging funds), we have never made this claim with respect to the SSBG. Our point is rather that both block grants are now being used to support activities so closely related they should logically be put under one grant.

An excellent example of this kind of "duplication" is cited in the above mentioned GAO report. The GAO found that a social services agency in Vermont was providing day-care services while the local CAA was using CSBG funds to support the training of day-care personnel. According to the GAO, such services "complement" rather than "duplicate" each other. Actually, this is an instance of another kind of duplication the narrow sense, since SSBG regulations authorize the use of SSBG funds to pay for the training of day-care workers. But assuming, for the sake of argument, that there were no such authority, it is precisely the complementary nature discovered by the GAO which is at the root of our proposal to consolidate the two block grants. Five years ago, approximately sixty

95 p

categorical programs with services that complemented each other were folded into ten block grants, producing substantial savings at all levels of government. In the interest of economy, efficiency and flexibility, Conggress should finish the job by pursuing the idea announced in the very first sentence of the SSBC Act and merging the two block grants. The first sentence of the Act reads, in part: "For the purposes of consolidating Federal assistance to states for social services into a single grant...".

5

Mr. Early: Your statement and the justification imply that the services provided with CSBG funds could be picked up by other programs, such as the SSBG. Yet, for FY 86, funding for the SSBG will be about $316 million less than it was in FY 81; and for FY 87, $200 million under the budget request. In fact, states have had to reduce Title XX services, and a number of states have transferred funds from other block grants to the SSBG. States have also indicated that funds already fall short of the identified need for services authorized under this block grant. Realistically, how can they be expected to fund additional services with their SSBG funds?

Answer: We have never implied that the SSBG, HUD, EPA or the Department of Labor would be able to pick up all the activities currently supported from the CSBG. The disappearance of $370 million---the amount appropriated in FY 1986 for the CSBG---would have an effect. But this fact, must be viewed in the context of the enormous deficits which threaten the ablity of the federal government to meet its obligations now and in the future--including its obligations to the poor. The single federal-state issue cited as most important by governors and their staffs in a recent survey of governors' priorities was the federal deficit. The size of the federal deficit makes its imperative that federal and state governments alike prioritize their needs and pare back those programs which are not absolutely essential.

However, it should be remembered also that the CSBG represents less than 1% of what the Administration is proposing be spent for low-income persons in FY 1987, and that the States are not without resources to offset to some degree the relatively modest cuts entailed by termination of the CSBG. A survey prepared this year by the National Governors' Association shows that the States' general fund year-end balances for FY 1987 are projected to be $5.7 billion. Although the Survey notes that states "that project small ending balances are unlikely to pick up federal responsibilites", it also points out that "states that are generally better off financially have responded to the imminent federal cuts."

Secondly, states will continue to have the option of transferring up to 10% of LIHEAP funds to the Social Services Block Grant to support a continuation of high-priority CSBG programs. In fiscal year 1984, 30 states transferred approximately $94 million from LIHEAP to five other block grants funded by the Department. In fiscial year 1987, up to $210 million will be available to the states for transfer.

In addition, states will have the authority to transfer to LIHEAP part or all of the $2.098 billion Exxon restitution fund which has just been distributed to the states. This should enhance the states' ability to transfer more money form LIHEAP to the SSBG

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to cover former CSBG activities deemed essential.

6

Mr. Early: Other federal funding sources cited in your statement---such as HUD, EPA, Labor---have all seen their funding reduced, with further reduction being proposed for many of their programs. Can states realistically be expected to accommodate additional programs and services under these programs without reducing services or eliminating activities?

Answer: The answer to the previous question addresses this question as well.

7a

Mr. Early: It is my understanding that both the CSBG and the SSBG are governed by statutory requirements for public input into the establishment of spending priorities. Is that correct?

Answer: Under the CSBG Act, States are required to conduct public hearings on the proposed use and distribution of CSBG funds.

7b

Mr. Early: And, under the CSBG, CAAs also must conduct a needs assessment to determine how funds will be spent---is that correct?

Answer: The CSBG Act does not mandate that States require CAAs to conduct a needs assessment to determine how CSBG funds will be spent. OCS has no information on the number of CAAs which do or do not conduct such assessments.

7c

Mr. Early: Doesn't this review process minimize the likelihood of duplication of services? If not, why not?

Answer: Under the CSBG Act, States must agree to "coordinate and establish linkages between governmental and other social services programs" and to "provide for coordination between antipoverty programs...with emergency energy crisis intervention...". These requirements could be expected to minimize the likelihood of duplication of services, although, as a recent GAO report on the CSBG notes, "opportunities exist to improve both policy and service delivery coordination".

But this sort of coordination is really irrelevant to the Administration's argument for consolidating the SSBG and the CSBG into a single block grant. As we stated in our answer to an earlier question on duplication, the Administration has never claimed there was any significant duplication in the precise services offered under the two grants. Our point was rather that the populations served by the two grants, the purposes of the grants and the generic categories of services provided under the grants are so closely related that it makes no sense to have two separate authorizing statutes, appropriations, sets of regulations, and two federal and state administrative apparatuses to provide the needed services. In a period of budgetary stress, responsible public officials must look for every possible way to consolidate overlapping programs. Duplication (in the sense we have just defined it) has been a problem in the past between these two grants. A 1982 report on the SSBG by the American Public Welfare Association noted: "Kentucky and Massachusetts are looking at ways to eliminate duplication of social services provided under Title XX (now the Social Services

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Block Grant) and the Community Services Block Grant."

Termination of the CSBG would not only accelerate the trend toward consolidation of CSBG and SSBG activities at the State and local levels, and render the delivery of services at these levels more efficient and less costly, but it would also produce significant savings at the federal level through the elimination of duplicative staffs and regulations. It would also give the States much more flexibility in choosing providers and in developing a mix of services best suited to the unique economic and social needs of a particular State.

INFORMATION COLLECTION SYSTEM

8a.

Mr. Early: Last year, your predecessor indicated that your office was supporting a project to design and implement a National Voluntary Reporting System for the states and to collect information on FY 84 CSBG operations. What is the status of this project?

Answer: The National Voluntary Reporting System (NVRS) is the product of an OCS grant to the Center for Local and Community Research. The Center has completed its report on the State CSBG operations in FY 1984. In FY 1986, OCS continued its support of the NVRS and the Center for Local and Community Research.

The grant amount is $200,000, for collection of information on the State operation of CSBG in FY 1985 and will be operating from October 1, 1985 through September 30, 1986. This report should be completed in August, 1986.

8b.

Mr. Early: How many people were served by the CSBG program in FY 84? In FY 85?

Answer: According to the National Voluntary Reporting System report on FY 1984 State CSBG operations, CSBG funds provided 26,372,067 units of assistance in 36 States and the District of Columbia (D.C). It is not known how many of these units were provided to the same individuals. FY 1985 data is not yet available.

8C

Mr. Early: What kinds of services were provided to low-income individuals with CSBG funds?

Answer: Services provided low-income individuals from CSBG funds fall into the following seven major categories: employment, education, better use of available income, housing, emergency services, nutrition and coordination and linkages with other programs.

8d

Mr. Early: What kinds of services were most often provided? Can you give us a percentage breakdown of the funds allocated for each of these services?

Answer: Attachment B summarizes the FY 1984 CSBG fund expenditures in 37 States in the 7 program categories contained in the CSBG statute with a percentage breakdown for each area.

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FOOD AND SHELTER PROGRAMS

Mr. Early: To what extent do CAAS and states use their CSBG funds for food and shelter programs for the homeless? Can you give us some idea of the kinds of activities being supported? 9

Answer: Under the CSBG Act, States are authorized to use funds to help low-income individuals and families "obtain emergency assistance...to meet immediate and urgent individual and family needs, including the need for health services, nutritious food, housing and employment-related assistance" and to "provide on an emergency basis for the provision of such supplies and services, nutritious foodstuffs and related services as may be necessary to counteract conditions of starvation and malnutrition among the poor". Clearly, therefore, there is authority for using CSBG funds to help the homeless.

On the other hand, the degree to which CSBG funds have actually been used for homeless persons is not known. OCS does itself not collect information from CAAs on their activities. In December, 1983, the National Association for State Community Services Programs estimated that around 20% of CSBG funds were used locally for the kind of emergency activities described above, but the Association was unable to distinguish between emergency services provided to those still in their homes from those provided to the homeless. A report on CSBG operations in FY 1984 prepared by the Center for Local and Community Research showed 37 States spent an average of 14.2% of their CSBG funds for emergency services including health service, food, housing and employment-related assistance and in some instances, cash assistance to avert immediate crises. The information does not indicate how much assistance was provided to those among the poor who are homeless.

Historically, CAAs---which receive the bulk of CSBG funds---were not known to focus on the needs of the so-called "street people", nor have they been in the forefront of efforts by local shelter and soup kitchen operators to address the homeless crisis during the past several years. The CAA role, for example, has been rather limited in the Emergency Food and Shelter Program operated by the Federal Emergency Management Administration (FEMA). In FY 1985, of the 6,000 local organizations administering the FEMA program, CAAs numbered only 467. That is, only 54% of CAAs were selected by local boards to participate in the program and these CAAs constituted only 7% of the total number of participating organizations.

Mr. Early: What other federal funds are currently available to local communities for food and shelter programs for the homeless? To what extent do these funds meet existing needs? 10

Answer: The Federal Task Force on the Homeless, composed of 15 federal agencies, is chaired by HHS, with HUD serving as the vice-chair. Its role is to identify existing federal resources, to coordinate federal efforts to help the homeless, and to act as an information source. The Task Force has put together a list of federal programs that can be used to help the homeless, a copy of which is attached for your information. While an attempt was made to use a broad perspective in identifying applicable programs, this listing should not be considered as exhaustive.

In many cases, these programs are block grants that can be used for a wide variety of purposes, including feeding and sheltering the homeless. The decisions on how to spend these funds are often the responsibility of the states and/or localities. In some cases, the funds go directly to an individual or institution, not a state or local government. The following list summarizes federal programs available to help the homeless:

SUMMARY OF FEDERAL PROGRAMS AVAILABLE TO HELP THE HOMELESS

AGENCY/PROGRAM	TOTAL 1985 FUNDS	1985 FUNDS TO HOMELESS
ACTION		
VISTA Volunteers	2200 Vol.	330 vol./72 proj.
Agriculture		
Food Stamp Program	$10.8B benefits	*
Charitable Institutions Food Distribution	$165M of food	*
Temporary Emergency Food Assistance Program (TEFAP)	$978M of food	*
Child Nutrition Programs	$4.4B	*
Special Supplemental Food Program for Women, Infants, and Children (WIC)	$1.5B	*
Use of Farmers Home Administration Owned Houses as Shelters	Not avail.	3 houses
Defense		
Use of Excess DOD Buildings as Shelters	600 bldgs. avail.	10 shelters
Excess Personal Property, Equipment, and Clothing	Not avail.	2.4M
Surplus Commissary Food to Food Banks	Not avail.	1.8M lbs. of food
National Guard Services	Not avail.	*
Energy		
Weatherization Assistance Program	$191M	*
Federal Emergency Management Agency		
Emergency Food and Shelter Program	$90M	$90M
General Services Administration		
Surplus Federal Personal Property, Equip., and Clothing	Not avail.	*
Use of Excess/Surplus Federal Real Property	Not avail.	3 facilities
Health and Human Services		
Older Americans Act	$669M	*
Runaway and Homeless Youth Program	$23M	$23M
Office of Human Development Services Coordinated Discretionary Grants	$43M	*
Social Services Block Grants	$2.7B	*
Community Services Block Grant Program	$372M	$43-60M emerg. svcs.
Medicaid	$23B	*
Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA) Block Grants	$490M	*
ADAMHA Program for Homeless Mentally Ill, using parts of several programs	$430M	*
Community Support Program	$6.6M	*
Center for State Human Resource Development	$4M	*
Maternal & Child Health Service & Primary Care Block Grant	$478M	*

* Amount allocated to homeless is not available.

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AGENCY/PROGRAM	TOTAL 1985 FUNDS	1985 FUNDS TO HOMELESS
HHS - continued		
Community Health Centers	$375M	*
Migrant Health Program	$44M	*
National Health Planning and Resources Development	$58M	*
National Health Service Corps	$60M	*
Social Security Administration Outreach Program	Not avail.	*
Social Security Benefits	$165.5B	*
Supplemental Security Income	$11B	*
Social Security Disability Insurance	$19B	*
Aid to Families with Dependent Children	$7B	*
Emergency Assistance Program	$78M	*
Housing and Urban Development		
Use of HUD-owned Single Family Homes as Shelters	Not avail.	25 homes
Existing Housing & Moderate Rehabilitation Program (Section 8)	$3B rehab/15 yrs. $769M vouchers/5 yrs	* *
Housing for the Elderly or Handicapped (Section 202)	$1.5B	*
Public and Indian Housing	$2.9B constr./20-30 yrs. $1.5B operations	* *
Community Development Block Grants	$2.4B	$77M FY 83-85
Labor		
Employment Service Program	$830M	*
Senior Community Service Employment Program	$326M	*
Job Training Partnership Act for Disadvantaged Youth and Adults	$3.8B	*
Emergency Veterans Job Training Program	$76M	*
Veterans Administration		
VA Pension and Compensation Benefits	$10B	*
Community Residential Care Program	12,000 residents	*
Domiciliary Care Program	$92M	*

* Amount allocated to homeless is not available.

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Attachment A
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Office of Community Services

FY 1985 Discretionary Grants

Economic Development

ADVOCAP, Inc. **P. O. Box 1108** **Fond du Lac, Wi. 54935**	$ 120,000
All Indian Pueblo Council, Inc. **P. O. Box 6507** **Albuquerque, N.M. 87197**	60,688
Baltimore Urban League **322 North Eutaw Street** **Baltimore, Md. 21201**	176,000
Bedford Stuyvesant Restoration Corp. **1368 Fulton Street** **Brooklyn, N.Y. 11216**	500,000
Cedar City Corp. **P. O. Box 249** **Cedar City, Ut. 84720**	500,000
Center Industries Corp. **P. O. Box 17364** **Wichita, Ks. 67217-0364**	289,000
City of Knoxville **400 Main Avenue** **Knoxville, Tn. 37901**	225,890
Coastal Enterprises, Inc. **P. O. Box 268** **Wiscasset, Me. 04578**	981,900
Community Enterprise Development Corp. **1011 East Tudor Road** **Anchorage, Ak. 99503**	750,000
Community Services Consortium **413 SW Jefferson Street** **Corvallis, Or. 97333**	46,200
Cowley County Develop. Services **P. O. Box 133** **Arkansas City, Ks. 67005**	400,000
Denver Community Develop. Corp. **4142 Tejon Street** **Denver, Co. 80211**	181,724

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Economic Development - Continued

East Boston Community Development Corp. 72 Marginal Street East Boston, Ma. 02128	$ 440,000
The Eisenhower Foundation 1725 "I" Street, NW. Washington, D. C. 20006	250,000
Evergreen Community Develop. Assn. 2122 Smith Tower Seattle, Wa. 98104	400,000
Fond du Lac Reserve Business Committee 105 University Road Cloquet, Mn. 55720	750,000
Harlem Commonwealth Council 361 West 125th Street New York, N.Y. 10027	1,000,000
Hawaii County Economic Opport. Council 34 Rainbow Drive Hilo, Ha. 96720	399,408
Houston Metro Ministries 3217 Montrose Houston, Tx. 77006	81,365
Madame Walker Urban Life Center 617 Indiana Avenue Indianapolis, In. 46202	400,000
Mexican American Unity Council 2300 West Commerce San Antonio, Tx. 78207	995,000
Mountain Assn. for Community Economic Development, Inc. (MACED) 210 Center Street Berea, Ky. 40403	750,000
Neighborhood Services, Inc. 1250 13th Street, North Birmingham, Al. 35204	284,740
Nephi City Corporation 21 East 100 North Nephi, Ut. 84648	700,000

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Economic Development - Continued

New Life Youth Services, Inc. P. O. Box 27035 Cincinnatti, Oh. 45227	200,000
Omaha Economic Development Corp. 3805 North 16th Street Omaha, Ne. 68110	250,000
Peoples Involvement Corp. 2146 Georgia Avenue, NW. Washington, D. C. 20001	155,000
People-to-People Health Foundation The Project Hope Health Sciences Education Center Millwood, Va. 22646	1,500,000
Philadelphia Citywide Development Corp. 100 South Broad Street Philadelphia, Pa. 19110	220,000
Private Industry Council, (Ventura) 260 Maple Court, Suite 112 Ventura, Ca. 93003	750,000
Rural New York Farmworkers Opportunties 339 East Avenue, Suite 305 Rochester, N. Y. 14604	354,300
Save the Children Foundation 54 Wilton Road Westport, Ct. 06880	147,785
The East Los Angeles Community Union 5400 E. Olympic Boulevard Los Angeles, Ca. 90022	1,000,000
Union Sarah Economic Development Corp. 4915 Delmar Boulevard St. Louis, Mo. 63108	661,000
United South End/Lower Roxbury Development Corp. 32 Rutland Street Boston, Ma. 02118	500,000

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Economic Development - Continued

Warren Village, Inc. **1323 Gilpin Street** **Denver, Co. 80128**	$ 250,000
City of Manning Clarendon County Library 411 N. Brook St. PO Box 546 Manning, So. Carolina	50,000
Inter-Agency Agreement ACTION Vietnam Veterans' Leadership Program	500,000
The Coalition for the Homeless 1419 "V" St., N. W. Washington, D. C. 20009	2,700,000*
Total Economic Development	19,920,000

* OCS funds only. Does not include transfers of $500,000 each fromAoA and ADAMAHA. Total grant $3,700,000.

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Rural Housing and Facilities

City of Douglas Community Development Dept. P. O. Box 248 Douglas, Ga. 31533	$ 39,000
Foundation for Rural Housing, Inc. 4506 Regent Street Madison, Wi. 53705	70,400
Kentucky Housing Corp. 1231 Louisville Road Frankfort, Ky. 40601	302,500
Ky. Mountain Housing Develop. Corp. P. O. Box 729 Manchester, Ky. 40962	320,000
Lincoln Hills Development Corp. P. O. Box 336 Tell City, In. 47586	97,150
Macon Program for Progress Self-Help Housing P. O. Box 700 Franklin, NC. 28734	100,000
New Mex. State Housing Authority 104 South Capital, #5 Sante Fe, NM. 87503	176,136
Oregon Housing & Assoc. Services Building 1, Suite 101 2111 Front Street, NE. Salem, Or. 97303	325,023
Rural Housing Improvement Box 429 Winchedon, Ma. 01475	177,621
Save the Children, Inc. 54 Wilton Road Westport, Ct. 06880	307,164
Upper Des Moines Opportunity, Inc. P. O. Box 98 Emmetsburg, Io. 50536	42,764

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Rural Housing and Facilities - Continued

West Central Missouri Rural Development Corp. **P. O. Box 125** **Appleton City, Mo. 64724**	$ 266,936
Wisconsin Coulee Region Cap. **201 Melby Street** **Westby, Wi. 54667**	79,306
Community Resources Group, Inc. **2705 Chapman Avenue** **Springdale, Ar. 72764**	268,166
Intertribal Council of Arizona **124 W. Thomas Road, Suite 201** **Phoenix, Az. 85013**	62,000
Midwest Assistance Program, Inc. **P. O. Box 81** **New Prague, Mn. 56071**	268,167
Rural Community Assistance Corp. **2125 19th Street, Suite 203** **Sacramento, Ca. 95818**	268,167
Rural Housing Improvement, Inc. **218 Central Street** **Winchendon, Ma. 01475**	268,167
Virginia Water Project **P. O. Box 2868** **Roanoke, Va. 24001**	268,167
WSOS Community Action, Inc. **P. O. Box 568** **Freemont, Oh. 43420**	268,166
Yap Community Action **P. O. Box 426** **Federated States of Micronesia** **Western Caroline Islands 96943**	75,000
Total Rural Housing & Facilities	**$4,050,000**

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Migrants

California Human Development Corp. **2462 Mendocino Avenue** **Santa Rosa, Ca. 95401**	$ 111,793
California Human Development Corp. **2462 Mendocino Avenue** **Santa Roas, Ca. 95401**	185,569
California Human Development Corp. **2462 Mendocino Avenue** **Santa Rosa, Ca. 95401**	72,020
Central Valley Opportunity Center **Box 2307** **Merced, Ca. 95340**	113,802
Delmarva Rural Ministries **26 Wyoming Avenue** **Dover, De. 11901**	355,000
Harvest America Corp. **14th & Metropolitan** **Kansas City, Ks. 66103**	82,273
Illinois Migrant Council **202 S. State Street** **Chicago, Il. 60604**	123,185
Lutheran Ministries of Florida **4525 S. Manhattan Avenue** **Tampa, Fl. 33611**	83,853
Minnesota Migrant Council **P. O. Box 1231** **St. Cloud, Mn. 56302**	219,081
Motiviation, Education & Training, Inc. **P. O. Box 1749** **Cleveland, Tx. 77328-1749**	476,290
Proteus Employment Opportunity **P. O. Box 10385** **Des Moines, Io. 50306**	32,450
Proteus Training & Employment **P. O. Box 727** **Visalia, Ca. 93279**	85,251

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Migrants - Continued

Proteus Training & Employ., Inc. **P. O. Box 727** **Visalia, Ca. 93279**	$ 249,282
Rocky Mountain SER **P. O. Box 11148** **Denver, Co. 80211**	90,936
TELAMON Corporation **3937 Western Boulevard** **Raleigh, NC. 27606**	496,796
United Migrant Opportunity Services **809 W. Greenfield Avenue** **Milwaukee, Wi. 53204**	257,419
Total Migrants	$3,035,000

National Youth Sports Program

The National Collegiate Athletic Association 6299 Nall Avenue Mission, Kansas 66201	$6,130,000

Attachment B

CSBG DOLLARS SPENT AND PERSONS SERVED IN 7 PROGRAM CATEGORIES
Program Year 1984
Incorporating Data from 37 States

PROGRAM CATEGORY	FY '84 CSBG FUNDS SPENT	$ as % Total $	# PERSONS ASSISTED	#s as % Total #
1. Employment	$16,511,378	12.3%	850,820	3.2%
2. Education	$8,706,729	6.5%	1,072,219	4.1%
3. Better Use: Available Income	$9,342,172	6.9%	1,081,793	4.1%
4. Housing	$9,082,435	6.7%	917,666	3.5%
5. Emergency Services	$19,145,526	14.2%	2,404,649	9.1%
6. Nutrition	$20,565,519	15.3%	9,957,664	37.8%
7. Linkages With Other Programs	$51,218,415	38.1%	10,087,256	38.2%
GRAND TOTAL: FY '84 CSBG PROJECTS	$134,572,175	100.0%	26,372,067	100.0%

Notes:
The Dollars Spent total includes data from 32 states and the District of Columbia, whose '84 CSBG awards comprise 53.1% of all federal CSBG awards made available to all states and territories in fiscal 1984.

The Persons Assisted total includes data from 36 states and the District of Columbia, whose '84 CSBG awards comprise 68.1% of all federal CSBG awards available to all states and territories in FY84.

The reported expenditures of these 37 "states" comprise 64.2% of the total '84 CSBG funds available to all states; that is, these 37 states provided detailed responses to the 1984 CSBG National Voluntary Reporting System on 94.2% of the FY84 federal CSBG funds available for them to expend in fiscal 1984.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF COMMUNITY SERVICES

Community Services Phaseout

	1987 Estimate		Page Number
	FTE	Amount	
Community Services	---	---	1
Community Services - Federal Administration......................	36	$3,612,000	1

DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF COMMUNITY SERVICES

Community Services Phaseout

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OFFICE OF COMMUNITY SERVICES

COMMUNITY SERVICES [BLOCK GRANT] PHASEOUT

For the phaseout of community services activities, $3,612,000. [For carrying out the the Community Services Block Grant Act, $372,435,000, of which $19,920,000 shall be for carrying out section 681(a)(2)(A), $4,050,000 shall be for carrying out section 681(a)(2)(D), $3,035,000 shall be for carrying out section 681(a)(2)(E), and $6,130,000 shall be for carrying out section 681(a)(2)(F).] (Department of Health and Human Services Appropriations Act, 1986)

[Provided further, That notwithstanding any other provision of this Act, amounts otherwise provided by this Act for the following accounts and activities are reduced by the following amounts:]

OFFICE OF COMMUNITY SERVICES

["Community services block grant, discretionary funds", $2,135,000 of which $1,570,000 applies to section 681(a)(2)(A), $330,000 applies to section 681(a)(2)(D), and $235,000 applies to section 681(a)(2)(E);] (Department of Labor, Health and Human Services and Education and Related Agencies Appropriation Act, 1986.)

Community Services Block Grant

Explanation of Language Changes

Language Provision	Explanation
"For the phaseout of community services activities, $3,612,000. (Department of Health and Human Services Appropriations Act, 1986.)"	This language provides for funds for Office of Community Services. These funds will be used to terminate and close out program activities authorized under the provisions of the Community Services Block Grant Act, Title VI, Subtitle B of the Omnibus Reconciliation Act of 1981 (P.L. 97-35).

Community Services Phaseout

Amounts Available for Obligation

	1985 Actual	1986 Estimate	1987 Estimate
Appropriation:			
Annual..............................	$372,435,000	$370,300,000	$3,612,000
Sequester order....................	---	-15,923,000	---
Proposed rescission...............	---	-182,138,500	---
Subtotal, adjusted appropriation..	372,435,000	172,238,500	3,612,000
Receipts and reimbursements from: Federal Funds..............	100,000	---	---
Unobligated balance lapsing.........	-189,000	---	---
Total obligations.................	$352,346,000	$172,238,500	$3,612,000

Community Services Phaseout

Summary of Changes

1986 Estimate	$370,300,000
1986 Sequester order	-15,923,000
1986 Proposed rescission	-182,138,500
Total estimated budget authority	172,238,500
(Obligations)	(172,238,500)
1987 Request	3,612,000
(Obligations)	(3,612,000)
Net change	-168,626,500
(Obligations)	(-168,626,500)

	1986 Base	Change from Base
Decreases:		
A. Built-in:		
1. Federal administration block grants	$3,923,000	-$311,000
B. Program:		
1. Community services activities	168,315,500	-168,315,500
Net change		-168,626,500

Community Services Phaseout

Budget Authority by Activity

	1986 Appropriation	1986 Available after Sequestering	1986 Revised	1987
Community services activities.................	$366,000,000	$350,262,000	$168,315,500	$ ---
Federal administration block grants...............	4,300,000	4,115,000	3,923,000	3,612,000
Total Budget Authority................	$370,300,000	$354,377,000	$172,238,500	$3,612,000
FTE/Positions...............	57/57	57/57	57/57	36/36

Community Services Phaseout

Budget Authority by Object

	1985 Actual	1986 Revised	1987 Estimate
Full-time equivalent of permanent positions........	55	54	36
Full-time equivalent of all other positions............	3	3	0
Total compensable workyears..................	58	57	36
Average ES salary...........	$63,222	$63,765	$64,308
Average GS grade............	11.66	11.66	11.66
Average GS salary...........	$44,292	$44,652	$45,012
Personnel compensation:			
Permanent positions.......	$2,659,000	$2,730,000	$1,842,000
Other personnel compensation............	124,000	45,000	50,000
Subtotal, personnel compensation..........	2,783,000	2,775,000	1,892,000
Personnel benefits..........	273,000	285,000	193,000
Benefits of former personnel	49,000	50,000	781,000
Travel and transportation of persons................	86,000	118,000	121,000
Transportation of things....	---	1,000	1,000
Rent, communications and utilities.................	141,000	151,000	151,000
Rental payments to GSA......	375,000	264,000	195,000
Printing and reproduction...	16,000	15,000	15,000
Other services..............	766,000	239,000	238,000
Supplies and materials......	9,000	20,000	20,000
Equipment...................	8,000	5,000	5,000
Grants, subsidies and contributions.............	367,840,000	168,315,500	---
Total Budget Authority.....	$372,345,000	$172,238,500 a/	$3,612,000

a/ Reflects a reduction of $15,923,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177; and a proposed rescission of $182,138,500.

Significant Items in House and Senate Appropriation Committee Reports

Item	Action Taken or to be Taken
Senate Report	
The Committee urges the Secretary to use available administrative funds to ensure the availability of direct training and technical assistance for State and local CSBG program administrators.	The Department believes that use of administrative funds to provide training and technical assistance for State and local CSBG program administrators should be provided from the administrative funds allowed the State in those limited instances in which such T/TA is necessary.
The Committee expects that when State agencies retain portions of CSBG allocations required to be passed through to eligible entities for subcontracting to non-profit groups for program operations, the chief executive officer of the State will provide assurances to the Secretary that (a) such subcontractors fulfill the responsibilities and organizational requirements of local eligible entities and (b) are afforded the privileges and protection of such entities.	The several States which have retained CSBG State allocations in whole or in part are eligible entities in their own right under the definitional criteria of the Community Services Block Grant Act. This Act does not prescribe the types of organizations with which the eligible entities must or may subcontract nor does it offer any privileges and/or protections to organizations serving as subcontractors. Therefore, in conformance with the existing block grant policy to allow States as much flexibility as possible in administering their block grants, OCS does not impose requirements on eligible entities which go beyond those spelled out in the legislation. The Office of Community Services will continue to require that the chief executive officer of each State certify annually to all the assurances required by the legislation.

Significant Items in House and Senate Appropriation Committee Reports

Item	Action Taken or to be taken
The Committee expects no reduction in 55 full-time equivalent positions. However, if the Secretary is required to make reductions in staff, the Committee recommends bringing the high ratio of OCS exempt Schedule C positions closer into line with that of the Department as a whole.	Should any reduction to staff be required, the ratio of OCS exempt Schedule C positions will reflect that of the Department as a whole.

Authorizing Legislation

	1986 Amount Authorized	1986 Current Estimate	1987 Amount Authorized	1987 Budget Request
Community Services:				
1. Community Services Block Grants Section 672 Community Services Block Grant Act	$415,000,000	$172,238,500	$ -0-	$3,612,000
Unfunded authorizations (Non-add): Community Food and Nutrition Section 681 CSBG Act as amended	(2,500,000)	(---)	(-0-)	(---)
Total appropriation against definite authorization	$415,000,000	$172,238,500	$ -0-	$3,612,000

COMMUNITY SERVICES

Table of Estimates and Appropriations

	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1982	$225,000,000	$362,552,000	$300,000,000	$366,075,000
1983	112,500,000	360,500,000	360,500,000	360,500,000
1983Suppl.	-0-	41,375,000	25,000,000	25,000,000
1984	2,852,000	377,300,000	351,000,000	352,300,000
1985	2,919,000	362,300,000	382,572,000	372,435,000
1985 Prop. Rescission	-34,000	---	---	---
1986	3,864,000	361,700,000	372,435,000	370,300,000
1986 Sequester	-15,923,000			
1986 Prop. Rescission	-182,138,500			
1987	3,612,000			

Community Services Phaseout

Account Summary

	1985 Actual	1986 Estimate	1987 Estimate
Community Services:			
Community services activities....................	$366,300,000	$168,315,500	$ —
Federal administration.........	4,300,000	3,923,000	3,612,000
Total, budget authority....................	$370,300,330	$172,238,500	$ 3,612,000
FTE/Positions..................	58/58	57/57	36/36

Community Services Activities

	1986 Appropriation	1986 after Seguestering	1986 Revised Estimate	Proposed Rescission
Community Services Activities..........	$366,000,000	$350,262,000	$168,315,500	-$181,946,500

Purpose and Method of Operation

This activity consists of two functions within the Community Services Block Grant (CSBG) program: (1) the provision of block grants to States to ameliorate the causes of poverty in communities within the States; and (2) a discretionary fund that provides for programs of regional and national significance designed to help poor persons. These include programs addressing areas of rural housing, economic development, special rural and urban needs, migrant and seasonal farmworkers assistance, and youth sports.

Each State requesting funds under the block grant program must certify in its application that the State agrees to provide: (1) a range of services and activities having a measurable and potentially major impact on causes of poverty in communities where poverty is an acute problem; and (2) activities designed to assist low-income participants, including the elderly.

Funds totalling $335,000,000 were allocated in 1985 for block grants to 50 States and the District of Columbia, Indian tribes, Puerto Rico, Guam, American Samoa, the Virgin Islands, the Northern Marianas and the Trust Territory of the Pacific Islands. Allocations were based on relative percentages of 1981 funding levels under Section 221 of the Economic Act of 1964. In 1985, OCS awarded 77 discretionary grants totalling $33,135,000 which included $6,130,000 for the national youth sports program; $19,920,000 for community economic development; $4,050,000 for rural housing and community facilities development; and $3,035,000 for migrant and seasonal farmworkers assistance.

Current FY 1986 funding plans for block grants to States are to award $167,500,000, or one half of $335,000,000, to cover the first and second quarters ending March 31, 1986. The reduction of $167,500,000 will include the sequester of $14,405,000 and the balance of $153,095,000 proposed for rescission. Of the total $31,000,000 appropriated for discretionary activities, $1,333,000 is included in the sequester order and $28,851,500 proposed for rescission, allowing a balance of $815,500 which has already been obligated for discretionary activities.

1987 Budget Proposal

The proposals to rescind $181,946,550 in FY 1986 and to request zero funding in FY 1987 for the CSBG is based on considerations which would be persuasive even if there were no deficit problem. These considerations become even more compelling in the context of the increasing deficits.

The rationale for these proposals assume that any domestic program not exempted under the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings) ought to be able to pass two tests: It must be unique, that is, non-duplicative of other programs and it must be an essential program. The CSBG program fails both tests.

The CSBG is duplicative of other programs in several ways. First, the 860 community action agencies (CAAs) which receive nearly 90% of the CSBG appropriation use a very substantial portion of this money to help defray administrative costs incurred in delivering programs such as Head Start, weatherization, job training, etc., which are supported from other Federal funding sources. The National Community Action Foundation, which represents the CAA network, concedes as much as 40% of all CSBG funds are used for overhead costs, while the GAO has found cases where the use of CSBG funds for administration ranged up to 100%.

Second, the remaining portion of CSBG funds is largely used either to expand programs created under other Federal funding authorities, or to provide direct services to the poor which are similar to those funded under the $2.6 billion Social Services Block Grant (SSBG).

With respect to the use of the CSBG to help administer or expand other Federal programs, Congress, in authorizing and appropriating funds for these programs, did not assume a CSBG offset but provided sufficient funds to cover all costs, including those for administrative overhead and those for direct services. The use of two sources of Federal funds to deliver these programs is not only duplicative, but makes it extraordinarily difficult for State and Federal auditors to track the proper use of such funds, or to assess the impact of CSBG expenditures on CAA clients and services. The latter difficulty was noted by the GAO in its report on the CSBG issued in September, 1984.

Another reason for the zero request for CSBG is found in the fact that those CSBG funds which are not passed on to the States---roughly 9% of the total appropriation--are used for direct Federal grants to some 75-80 organizations operating projects in distressed areas that are no different from projects funded by such other Federal agencies as HUD, the Department of Agriculture, the Department of Labor, and the Environmental Protection Agency.

The CSBG is not only duplicative of other Federal programs, it is also a non-essential program. Its funding represents only a fraction---less than 1%---of the multibillion dollar programs, such as AFDC, food stamps, medicaid, etc., which make up the true social safety net and which Congress exempted from any reductions under Gramm-Rudman-Hollings in FY 1986. The CSBG is simply not an essential part of the social safety net and none of the safety net programs would be seriously affected by a rescission of the CSBG in FY 1986 and zero funding in FY 1987.

Not only is the CSBG not essential to the welfare of poor persons, it is not even needed for the survival of those community action agencies (CAAs) which have been performing effectively. This is evident from the fact that the CSBG accounts, on an average, for only 12% of CAA funding. The remaining 86%, or $2.4 billion of CAA funds—including money for salary and operating expenses---derives from other federal funding authorities, with 2% supplied by State and local governments and the private sector.

Effective community action agencies will continue to be able to compete for Social Services block grant, Head Start, Low Income Home Energy Assistance, community development, job training, and other funding sources available to assist States in delivering social services. Thus, social services for the needy will continue to be supported.

Allocations to States for
Community Services Block Grants a/

State or Outlying Area	1985 Actual	1986 Estimate	1986 Revised	1987 Estimate
TOTAL	$335,000,000	$320,595,000 b/	$167,500,000	$ — c/
Alabama	6,383,838	6,110,027	3,192,281	—
Alaska	788,398	766,867	400,662	—
American Samoa	219,869	209,194	109,297	—
Arizona	3,200,746	2,710,597	1,416,195	—
Arkansas	4,734,516	4,531,447	2,367,527	—
California	31,055,268	29,723,271	15,529,399	—
Colorado	3,029,301	2,899,371	1,514,823	—
Connecticut	4,202,252	4,022,013	2,101,365	—
Delaware	920,338	875,655	457,500	—
Dist. of Columbia	5,720,188	5,474,843	2,860,420	—
Florida	10,122,861	9,688,679	5,062,006	—
Georgia	9,367,178	8,965,409	4,684,121	—
Guam	208,088	197,985	103,441	—
Hawaii	1,455,510	1,393,082	727,838	—
Idaho	904,310	858,998	448,798	—
Illinois	16,450,881	15,745,284	8,226,376	—
Indiana	5,069,644	4,852,201	2,535,111	—
Iowa	3,768,556	3,606,919	1,884,493	—
Kansas	2,842,024	2,720,126	1,421,174	—
Kentucky	5,871,325	5,619,497	2,935,996	—
Louisiana	8,177,800	7,827,044	4,089,364	—
Maine	1,828,426	1,750,003	914,317	—
Maryland	4,777,228	4,572,327	2,388,885	—
Massachusetts	8,677,819	8,308,176	4,340,740	—
Michigan	12,899,452	12,346,166	6,450,452	—
Minnesota	4,192,395	4,012,579	2,096,436	—
Mississippi	5,528,137	5,291,029	2,764,383	—
Missouri	9,636,595	9,223,270	4,818,845	—
Montana	1,168,173	1,099,747	574,581	—
Nebraska	2,425,504	2,321,469	1,212,889	—
Nevada	917,162	872,633	455,921	—
New Hampshire	942,960	902,516	471,534	—
New Jersey	9,541,314	9,132,076	4,771,199	—
New Mexico	2,138,324	1,841,757	962,256	—
New York	30,220,471	28,924,280	15,111,954	—

Allocations to States for
Community Services Block Grant (Continued)

State or Outlying Area	1985 Actual	1986 Estimate	1986 Revised	1987 Estimate
TOTAL	$335,000,000	$320,595,000[b]	$167,500,000	$ —[c]
North Carolina	9,111,939	8,721,116	4,556,487	—
North Dakota	862,545	820,676	428,776	—
No. Mariana Islands	130,357	124,028	64,801	—
Ohio	13,576,002	12,993,710	6,788,772	--
Oklahoma	4,395,368	4,177,700	2,182,706	—
Oregon	2,789,454	2,669,812	1,394,886	--
Pennsylvania	14,745,667	14,113,208	7,373,672	—
Puerto Rico	14,670,098	14,040,881	7,335,883	—
Rhode Island	1,924,312	1,841,775	962,265	—
South Carolina	5,351,280	5,121,757	2,675,944	--
South Dakota	959,829	887,070	463,464	—
Tennessee	6,863,569	6,569,183	3,432,175	--
Texas	16,769,582	16,050,315	8,385,744	--
Trust Terr. Pacific Islands	994,921	946,618	494,576	—
Utah	1,355,224	1,267,539	662,246	--
Vermont	975,816	933,962	487,964	—
Virgin Islands	287,440	273,485	142,887	--
Virginia	5,575,623	5,336,478	2,788,128	—
Washington	4,124,889	3,941,406	2,059,251	—
West Virginia	3,896,694	3,729,560	1,948,569	--
Wisconsin	4,232,264	4,054,414	2,118,293	--
Wyoming	920,338	875,655	457,500	—
Indian Tribes Set Aside	1,099,938	1,708,115	892,432	—

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a/ One half of one percent of the amount appropriated for each fiscal year is apportioned on the basis of need among Guam, American Samoa, the Virgin Islands, the Northern Mariana Islands and the Trust Territory of the Pacific Islands. After this apportionment and such amount as is determined necessary for discretionary purposes (not to exceed 9%) the Secretary allots to each State an amount which bears the same ratio to such remaining amount as the amount received by the State for Fiscal Year 1981 under section 221 of the Economic Opportunity Act of 1964 bore to the total amount received by all States for Fiscal Year 1981 except that no State receives less than one-quarter of one percent of the amount appropriated. (Puerto Rico and the District of Columbia are deemed to be States for allocation purposes).

b/ Reflects a reduction of $14,405,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177.

c/ No funding requested for FY 1987.

Community Services Phaseout

Federal Administration Block Grants
(Community Services Block Grant Act of 1981, Sections 672(a) and 682(e))

1987 Authorization: $ -0-

Budget Authority:

	1986 Appropriation	1986 Available after Sequestering	Revised Estimate	1987	Increase or Decrease
	$ 4,300,000	$ 4,115,000	$ 3,923,000	$ 3,612,000	-$311,000
FTEs	57	57	57	36	-21

Purpose and Method of Operation

This activity provides for salaries and expenses of staff to administer the Community Services Block Grant appropriation including direct block grants to States, Indian grants and discretionary projects in the areas of economic development, rural community facilities, migrants and seasonal farmworkers and national youth sports.

1987 Budget Proposal

The 1987 request of $3,612,000 will support salaries and expenses to close out the Community Services Block Grant program, including $2,866,000 for salaries and benefits of former and current employees, $122,000 for travel and transportation; $195,000 for rental payments to GSA; and $429,000 for other overhead activities, including utilities, equipment rental, computer services, maintenance and repair, printing and reproduction and supplies.

Federal Administration Summary

	1986 Revised Estimate	1987 Estimate	Increase or Decrease
Personnel Compensation and Benefits	$3,060,000	$2,085,000	-$975,000
Benefits of former personnel	50,000	781,000	+731,000
Travel and transportation	119,000	122,000	+3,000
Rental payments to GSA	264,000	195,000	-69,000
Rent, Communications and Utilities	151,000	151,000	---
Printing and Reproduction	15,000	15,000	---
Other Services	239,000	238,000	-1,000
Supplies and Materials	20,000	20,000	---
Equipment	5,000	5,000	---
Totals	$3,923,000	$3,612,000	-$311,000

Rural Development Loan Fund

Rural Development Loan Fund
(Community Services Block Grant Act, 1981, Section 681(a)(2)(B); Community Economic Development Act, 1981, Section 633)

1987 Authorization: $ -0-

The Rural Development Loan Fund has been transferred to the Department of Agriculture as of December 23, 1985 under the provision of the Food Security Act of 1985. The unobligated balance of the fund, as of September 30, 1985, was $13,770,300.

Community Development Credit Union Loan Fund

Community Development Credit Union Loan Fund
(Community Services Block Grant Act, 1981, Section 681(a)(2)(C); Community Economic Development Act, 1981, Section 633)

1987 Authorization: $ -0-

1986 Appropriation	1986 Available after Sequestration	1986 Revised	1987	Increase or Decrease
Budget Authority:				
$ ---	$ ---	$ ---	$ ---	$ ---
Unobligated Balance:				
$ 2,528,562	$ 2,528,562	$ ---	$ ---	$ ---

The Community Development Credit Union Loan Fund is a revolving fund originally established under the Economic Opportunity Act of 1964 and continued under the Community Economic Development Act of 1981.

1987 Budget Proposal

The budget estimates request no new direct loans or loan guarantees from the CDCU in 1986 and 1987. The remaining balance of this revolving fund as of September 30, 1985 was $2,528,562. This balance is proposed for rescission in FY 1986 to the U. S. Treasury general fund.

Detail of Permanent Positions

	1985 Actual	1986 Estimate	1987 Estimate
ES-3	1	1	1
ES-2	1	1	1
ES-1	1	1	1
Subtotal	3	3	3
GS/GM-15	7	7	4
GS/GM-14	9	9	5
GS/GM-13	7	7	6
GS-12	12	12	9
GS-11	2	2	1
GS-10	---	---	---
GS-9	2	1	1
GS-8	---	---	---
GS-7	5	5	1
GS-6	8	8	6
GS-5	---	---	---
GS-4	---	---	---
GS-3	---	---	---
GS-2	---	---	---
GS-1	---	---	---
Subtotal	55	54	36
Ungraded	---	---	---
Total permanent positions	55	54	36
Unfilled positions, end-of-year	---	---	---
Total permanent employment, end-of-year	55	54	36
Worker-Trainee Opportunity Program positions included above	(---)	(---)	(---)

Estimates for Related Services

Account Title	Type	Source of Funds	Obligations 1985	1986	1986
Community Services Program	SA	A	$200,000	$ -0-	$ -0-
Total, related services.................			$200,000	$ -0-	$ -0-

SA - Special analysis
A - Appropriated funds

TOTALS:

Management and professional services....	$ -0-	$ -0-	$ -0-
Special studies and analyses............	200,000	-0-	-0-
Management and support services for research and development activities...	-0-	-0-	-0-
Total, related services.............	$200,000	$ -0-	$ -0-

FRIDAY, MARCH 21, 1986.

OFFICE OF HUMAN DEVELOPMENT SERVICES

WITNESSES

DORCAS R. HARDY, ASSISTANT SECRETARY FOR HUMAN DEVELOPMENT SERVICES

DODIE LIVINGSTON, COMMISSIONER, ADMINISTRATION FOR CHILDREN, YOUTH AND FAMILIES

CAROL J. FRASER FISK, ACTING COMMISSIONER, ADMINISTRATION ON AGING

JEAN K. ELDER, COMMISSIONER, ADMINISTRATION ON DEVELOPMENTAL DISABILITIES

WILLIAM ENGLES, COMMISSIONER, ADMINISTRATION ON NATIVE AMERICANS

ENID BORDEN, ACTING DIRECTOR, OFFICE OF POLICY AND LEGISLATION

NORMAN GOLDSTEIN, DIRECTOR, OFFICE OF MANAGEMENT SERVICES

DENNIS P. WILLIAMS, ACTING DEPUTY ASSISTANT SECRETARY, BUDGET, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. Natcher. At this time, we take up the budget request for fiscal year 1987 for the Office of Human Development Services. We have before the committee Mrs. Dorcas R. Hardy. We are delighted to have you back before the committee. You have been here before?

Ms. Hardy. Yes, Mr. Chairman, I have been here several times. It is a pleasure to return.

Mr. Natcher. Tell us who you have with you at the table.

Ms. Hardy. I am accompanied by William Engles, Commissioner of Native Americans; Dr. Jean Elder, Commissioner, Administration on Developmental Disabilities; Carol Fraser Fisk, Acting Commissioner, Administration on Aging; Enid Borden, Acting Director, Office of Policy and Legislation; Norman Goldstein, Director of Management Services; and we expect Dodie Livingston, Commissioner of Children, Youth and Families; and Dennis Williams, Department of Health and Human Services.

Mr. Natcher. At this time, we will be pleased to hear from you.

Ms. Hardy. Thank you, Mr. Chairman.

Our 1987 budget request is approximately $5.5 billion. All the money that we have proposed is, we believe, toward the goal of promoting economic and social self-sufficiency among all of our vulnerable populations.

As a result of the Deficit Reduction Act, all of our programs have been reduced in 1986. We believe that we can operate with these reductions with a minimum impact on direct service levels.

The 1987 budget restores the funding level to the pre-Gramm-Rudman-Hollings levels for service programs. There are some reductions in levels of support which are requested for discretionary programs which do not provide direct services.

We think it is a very sound budget, a good budget, and we would be pleased to answer any questions you may have.

[The statement of Ms. Hardy follows:]

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Statement by the Assistant Secretary for Human Development Services

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to discuss the fiscal year 1987 budget request for programs administered by the Office of Human Development Services.

A total of $5,496,215,000 is requested to support a variety of social programs which serve children and youth and their families, the elderly, those who are developmentally disabled, and Native Americans. Of the total requested, $2,700,000,000 is requested for the Social Services Block Grant appropriation; $1,978,378,000 is requested for the Human Development Services appropriation; and $817,837,000 is requested for the Family Social Services appropriation. No funds are requested for the Work Incentive Program (WIN). Amounts requested for most Human Development Services programs are the levels requested by the President for fiscal year 1986, and reflect restoration of the Gramm-Rudman-Hollings reductions in most cases.

With the exception of the Work Incentive Program, service levels for all programs supported in fiscal year 1986 will be maintained or increased to the extent possible.

A level of $2,700,000,000 is requested for the Social Services Block Grant to continue support for a variety of social services in each State. The amount requested represents the full authorization for this program in fiscal year 1987. Services which a State may choose to provide may include, but are not limited to: child and adult day care services, protective services, foster care, transportation, training, information and referral, counseling, delivery of meals, and health support.

A level of $1,978,378,000 is requested for the Human Development Services appropriation. This appropriation includes programs for children and youth and their families, the elderly, those who are developmentally disabled, and Native Americans.

For the Head Start program, $1,075,059,000 is requested to support comprehensive child development services to 448,250 preschool children and their families, the same number served in 1985 and 1986.

For Family Crisis and Protective Services, $30,500,000 is requested. This new program, for which legislation will be proposed, will consolidate Child Abuse and Neglect and Family Violence activities to provide greater flexibility to States in meeting the specific needs of their respective populations. The proposal will retain many of the important reporting and protective requirements currently in the law.

For Runaway and Homeless youth programs, $23,250,000 is requested to support 285 centers expected to serve 86,000 youth and their families.

For the Administration on Aging, a level of $689,100,000 is requested. The request will provide a wide range of social and nutrition services to approximately 9 million elderly persons. Approximately 222 million meals will be served to over three million older persons.

For Developmental Disabilities programs a level of $73,000,000 is requested. The program will continue to support State systems which coordinate, monitor, and evaluate and promote services and opportunities provided to the developmentally disabled; to provide for systems of protection and advocacy of individual rights of persons who are developmentally disabled; and to provide support for University Affiliated Facilities.

For Native American programs, $27,300,000 is requested to promote social and economic self-sufficiency for American Indians, Alaska Natives and Native Hawaiians.

An amount of $60,169,000 is requested for Human Development Services Program Direction. Th funds will provide effective and efficient management of all programs administered by the Office of Human Development Services.

A level of $817,837,000 is requested for the Family Social Services appropriation. The Administration has proposed legislative changes in the Foster Care program that will improve State incentives to effect early reunification of children with their families or provide for other permanent placement for children. Funds requested will continue to provide assistance to States to strengthen the family unit, to reunify children with their families, or, where this is not possible, to find suitable adoptive homes for them. These funds will support the Child Welfare Services and Training programs, and the Foster Care and Adoption Assistance programs, Child Welfare Research and Demonstration, Adoption Opportunities, and Social Services Research.

The Work Incentive Program is proposed for phase-out in 1987. Instead, in conjunction with the Department's Work Opportunity initiative, AFDC applicants and recipients will be required to participate in job search and other employment-related activities as a condition of AFDC eligibility.

Thank you, Mr. Chairman. My Colleagues and I will be happy to answer any questions you and the Committee may have.

PROGRAM REQUIRING AUTHORIZATIONS

Mr. NATCHER. The total budget request for the Office of Human Development Services for 1987 is $5,496,215,000. Can you identify the programs in your budget request that are not authorized for 1987 at the present time?

Ms. HARDY. Mr. Chairman, we have several programs that are not yet authorized, and the authorization requests will be submitted soon. These include the Head Start program, for over $1 billion; the Native American program, for about $27 million; and some proposed legislation called Family Crisis and Protective Services, a new formula grant program, for $30.5 million.

We also have a legislative proposal submitted to the Congress last year, which is still pending that would generate savings in the Foster Care and Family Social Services account of about $38 million.

Mr. NATCHER. Is the Administration proposing legislation for the authorization of all of these programs you have just mentioned?

Ms. HARDY. Yes, we are, Mr. Chairman.

STATUS OF LEGISLATIVE PROPOSALS

Mr. NATCHER. What is the status of your legislative proposals? Have they been submitted to the House and the Senate?

Ms. HARDY. The legislation for the new Family Crisis and Protective Services Program, the Native America and Head Start programs have not been submitted yet. The Family Social Services legislation was submitted and introduced in both the House and the Senate last year.

RESULTS OF SEQUESTERING

Mr. NATCHER. Your budget shows $228,652,000 for 1986 appropriations as having been sequestered under the Emergency Deficit Control Act. Are you aware of any serious problems among your programs that will result from these reductions, Ms. Hardy?

Ms. HARDY. No, Mr. Chairman, we are not aware of any serious problems. We believe that we have been able to take the decreases required by Gramm-Rudman-Hollings in a cost-effective way.

We do not believe there will be any decrease in direct services in most of our areas.

Mr. NATCHER. For Head Start, you show $46,744,000 as being sequestered. Won't that reduction seriously affect delivery of services to needy pre-school children?

Ms. HARDY. That was a concern of ours when we decided how to take the reductions. Each grantee, over 1,300 in the country, received only a 1.4-percent reduction because we have been able to take the reductions from other parts of our program. We expect that all of the grantees can take the 1.4 percent primarily out of the administrative expenses of the program, and there will be no decrease in direct services to Head Start children this program year.

PROPOSED RESCISSIONS

Mr. **Natcher**. The budget includes proposed rescissions of $77,021,000 total for your office. These rescissions involve the work incentives program, child abuse, family violence prevention, dependent care and several other programs.

Generally, what criteria were used in selecting programs to be reduced?

Ms. **Hardy**. In general, Mr. Chairman, rescissions have been proposed that return the budget to the President's proposed budget for 1986.

We have asked for no funding for the WIN program as we have for several years. The child abuse challenge grants, and family violence, and dependent care are new programs authorized by the Congress as late as September of 1985, and we believe that they are unnecessary, therefore, we propose that they be rescinded before we begin to implement them.

Mr. **Natcher**. Does the proposed rescission of $45,884,000 for the Work Incentive Program relate to an attempt to phase out this program?

Ms. **Hardy**. Yes, it does.

Mr. **Natcher**. How did you reach the figure of $45,884 million?

Ms. **Hardy**. I would prefer to supply that for the record, sir.

Mr. **Natcher**. That is all right.

[The information follows:]

The amount proposed for rescission together with $89.1 million sequestered in accordance with Gramm-Rudman-Hollings would total $55 million, or approximately one-quarter of the $212,000,000 appropriated for grants to States. If the proposed rescission is enacted, the program would be phased out during the fourth quarter of Fiscal Year 1986.

Mr. **Natcher**. If the rescission for this program were approved, the amount available for 1986 would be $164,156,000. Instead of eliminating the program in 1987 as the budget suggests, suppose Congress decides to continue the program in 1987 at the level of $164,156,000? Could a viable program be operated at that funding level?

Ms. **Hardy**. Some type of program could be run for $165 million, but at that level would probably be of limited value to participants since little real work activity could be supported. Instead, we believe dollars could most effectively be spent if put into the Work Opportunities legislation submitted as part of the AFDC legislative package on the other side of the Department of Health and Human Services which does have a real work and job search emphasis.

SUPPLEMENTAL REQUEST

Mr. **Natcher**. The budget includes a supplemental request, $100,228,000, for foster care and adoption assistance. Both these programs are considered entitlements. Can you give us some idea as to when supplemental funds will be needed?

Would that be in May, or June, or July; when would you have to have these funds?

Mr. **Goldstein**. The funds are needed in the summer.

Mr. **Natcher**. During the summer months?

Mr. **Goldstein**. Yes.

Mr. **Natcher**. June, July, August?

Mr. **Goldstein**. The supplemental is for claims which the States have already submitted, and which we have reviewed and approved, so as soon as we get the funds, they will be allocated out to the States.

Mr. **Natcher**. Assuming that the next supplemental does not come until August or September, would it create any problem for you?

Mr. **Goldstein**. No particular problems would be caused.

Mr. **Natcher**. Are the supplemental amounts requested based on your latest estimate of funds required for these programs?

Mr. **Goldstein**. Yes, they are.

Mr. **Natcher**. Do you expect to update these cost estimates during the next several months?

Mr. **Goldstein**. No, not on an overall basis.

Mr. **Natcher**. Will you make a point to keep the committee advised if there is a change in your supplemental requirements?

HEAD START BILL LANGUAGE

Under Head Start, you are requesting appropriation bill language providing that Head Start grantees shall be considered as educational institutions. What is the practical effect of this proposed language?

Ms. **Hardy**. The effect of this proposed language, Mr. Chairman, would be that Head Start employees would not be eligible for unemployment compensation during the summer.

Mr. **Natcher**. Is this proposed bill language based on any kind of a survey or study?

Ms. **Hardy**. The proposed language is based on an Inspector General report that was given to my office last year. The Inspector General has higher estimates of savings than we believe are obtainable, but we see this language as a way to ensure that the Head Start grantees are not spending more than they need to out of their own monies for building up unemployment insurance funds.

HEAD START UNEMPLOYMENT COSTS

Mr. **Natcher**. How much of the Head Start funds are used to pay unemployment insurance for staff? Can you give us some idea about that?

Ms. **Hardy**. It varies between 2 and 4 percent of a program's budget. We would like to have it as low as possible, seeing that we do not believe that it is necessary or equitable that Head Start employees collect unemployment in the summer, when they will be employed again when the school year starts.

HEAD START REQUEST FOR FY 1987

Mr. **Natcher**. The 1987 budget request is $1.075 billion, the same amount as appropriated for 1985. How is it possible to provide the same quality of services to the same number of children without an increase to cover the cost of inflation?

Ms. **Hardy**. We believe that there are areas that the Head Start grantees can continue to reallocate their own internal funds to assure quality, if they find that that is necessary. We think we have good quality programs out there, and that we can continue to serve the same number of children next year as we are this year, and as we did in 1985.

Mr. **Natcher**. Will the amount requested for 1987 allow for any salary increases for Head Start employees?

Ms. **Hardy**. The amount will not provide for specific salary increases, but program improvement dollars could be used for some salary increases.

The concern that I have is that we make sure that those individuals who receive any kind of salary increases are the teachers and staff who are highly trained and who have done a good job, so there is a correlation between salary and performance or working through the child development associate credential.

AMOUNT REQUIRED TO OFFSET INFLATION

Mr. **Natcher**. How much would be required in 1987 to cover the cost of inflation in the Head Start program?

Ms. **Hardy**. I would have to supply that for the record, sir.

Mr. **Natcher**. All right.

[The information follows:]

We estimate that inflation for 1986 will be approximately 3.3 percent or $35,477,000 for Head Start.

USE OF ADDITIONAL HEAD START FUNDS

Mr. **Natcher**. If it were possible to add $25 million to the Head Start budget, how do you think such an increase would be used by grantees? Just assuming the amount of $25 million.

Ms. **Hardy**. I believe most of that, should be used to expand the number of children in areas of greatest need. We should be also looking at program improvements, taking suggestions from grantees in the area of transportation, rolling stock, supplies. And also in the area of salaries as they relate to performance.

FAMILY CRISIS AND PROTECTIVE SERVICES

Mr. **Natcher**. The 1987 budget proposes a new Family Crisis and Protective Services Program, as you know, to replace four existing programs. Aren't you now operating in this manner through your "coordinated discretionary funds program"?

Ms. **Hardy**. No, sir, we are not.

The proposal combines, as you note, several small categorical formula grants that by statute are to be alloted by formula to States. Our coordinated discretionary program is a combination of discretionary non-formula dollars that provide coordinated discretionary research and demonstration projects throughout the country.

I see them as quite different.

Mr. **Natcher**. Mr. Conte, I yield to you.

NEW POST FOR MS. HARDY

Mr. **Conte**. Thank you, Mr. Chairman.

I would like to welcome Ms. Hardy and congratulate you on your nomination to be the new Commissioner of the Social Security Administration.

Ms. **Hardy**. Thank you, Mr. Conte.

Mr. **Conte**. I have enjoyed working with you in your current position, and always found you to be very helpful to me whenever I had any concerns in your area, and I would like to thank you for that, and know you will do a good job out there, and I wish you the very best of luck.

Besides, we will still get to see each other every year.

Ms. **Hardy**. I look forward to that.

ACCOMPLISHMENTS

Mr. **Conte**. After your five years on your job, is there anything you would like to say about what you have accomplished, and what, if anything, you feel remains to be done, and even how you feel about the way we handled the HDS issues, if you like? It is a Friday afternoon, and we have an open mike here on the subcommittee, so you can say whatever you want. Is that all right, Mr. Chairman?

Ms. **Hardy**. I have some observations in terms of human development services, and that is what I should stick to. That is what I have been paid to do for the last couple of years.

I do believe that we can manage our program more effectively with the same or fewer dollars. I think we have done a good job in that area, and that we have a lot to be very proud of in this Administration.

I don't think we always get the credit that we should, but that is how things operate.

We have tried very hard to communicate to the world, and especially to the constituents, I would say, that social service is indeed a business, and that we have an obligation as people who are involved in this field to try and run our programs, whether we run them from the Federal side, State, local, public or private funds, in a very business-like, measurable, accountable capacity.

That has been a very difficult concept to get across to the field, and in many ways to get across to Capitol Hill as well. I think that has probably been one of the greater frustrations. We are trying, with Federal dollars, to serve the people who need the services the most. We are not in the business of serving somebody just because it is nice to do, making those determinations between who really needs and who doesn't is not always my bailiwick, but whether at the Federal, State or local level it is a tough one for all of us.

Whatever we do services should be focused on moving people in and out of a service system. We are not and should not be in the business of having people be beholden to Federal dollars or services for a long period of time, if we can help it.

Good management is what we try to accomplish. We have done some very good things. We have set out some measurable objectives and in most cases, accomplished them.

EMPLOYMENT OF THE DISABLED

One in particular relates to the employment of the developmentally disabled. We go to the private sector, and promote the concept that the disabled say that people can work, and I believe that everybody can work to some extent. They may not earn enough to have that be their total means, but they can contribute, and we have said to the private sector, will you help us?

I am not sure anybody has ever asked before, and everybody has said yes, and we have asked the private sector to hire 25,000 disabled people in 1984, and we exceeded that, 50,000 in 1985, exceeded that, and 75,000 in 1986, and I believe we will still exceed that.

These are a lot of service jobs, entry-level jobs, through which people are getting employed. Clearly, a lot has to do with the economy, but it is also due to recognition that there are skills that not every employer gives people credit for.

CHILDREN'S PROGRAMS

The children are still important to all of us, and the children are the ones that we have invested many dollars in. We hope we are getting a good return. We believe that programs like Head Start are really helping children to graduate from school, not be pregnant, and better prepared them to be more productive citizens.

Our studies, indicate that our programs are doing that. They are not perfect, and in some of these cases, there are problems that have been difficult to fix.

The other children's area that deserves a lot of attention is the whole area of foster care. I believe we have been quite successful in promoting adoption of many of these children out of foster care, but in the foster care system, and without passage of the legislation that we proposed last year, the bills are going up while the number of children is going down.

I have been on the State side, so I have conversations with State people, and they want to maximize their reimbursement and we want to minimize our costs, so there is always that give and take.

There are some definite concerns that should be addressed in this whole foster care system, and not just in terms of financial assistance. It can become a bad long-term experience for too many children. We need to look carefully at what we are paying for, and how we can pay for shorter terms of foster care.

The 96-272 legislation, child welfare adoption assistance, from 1980, has been very helpful. The legislation we have up here would also add on to that, and be very good.

SOCIAL AND ECONOMIC DEVELOPMENT

And my last comment is that—two last comments—one is about economic development and the whole concept of social services being a business, that we have been able to—especially in the Native American population—been really clear to say to people, you should be responsible, we are going to give you five bucks, and we expect a return on our investment.

That has happened with the Native Americans. The senior citizens are doing well. The nutrition programs continue to go on, and even with the Gramm-Rudman reduction of four meals, per site, per day the elderly are doing very well. They have also reacted favorably to our request for voluntary contributions to meals. Senior citizens are proud, and they want to contribute just like everybody else does.

They can't contribute the whole nine yards, we are willing to take whatever they can contribute.

We have doubled the contributions in the whole area of senior meals, and all the funds have stayed in the communities, in Pittsfield, for example, and the senior center there.

In essence, that is what we have tried to do. We have done a pretty good job but we have not achieved all our objectives. Thank you for the opportunity.

Mr. CONTE. Very good.

FAMILY VIOLENCE PREVENTION

I guess I have time for a few questions. I would also like to say I appreciate the issuance of the proposed Family Violence Prevention and Services regulations on March 10. I look forward to that program getting underway.

What would you say the timetable is from here?

Ms. HARDY. The notice has been in the Federal Register, as you noted. We are accepting applications due by May 9, 1986. We expect to make grants this summer.

Mr. CONTE. As I understand it, 85 percent of the appropriation will be distributed as grants to the States, and the remainder will provide for research, training, technical assistance, evaluation, coordination and clearinghouse activities, according to the notice.

How do you plan to expend those remaining funds?

Ms. HARDY. Most of the remainder of those funds will be spent in conjunction with the Department of Justice through an interagency agreement. There is a heavy law enforcement emphasis in the law, and a lot of law enforcement training needs to take place.

We are also setting aside some dollars to address elder abuse. Beyond the State grant portion, there is also an Indian-Native American allotment of funds.

Mr. CONTE. Is there any matching funds required by the States?

Ms. HARDY. No, States are not required to match these funds. When the States allot their money, they have the ability to ask for matching funds.

Mr. CONTE. But they are not required?

Ms. HARDY. No, they are not required to, but I would expect that they would ask for matching funds maybe 15 or 20 percent.

Mr. CONTE. How much of the funding will be required for shelters?

Ms. HARDY. There is no requirement. The maximum grant that the State can give is $50,000.

Mr. CONTE. Can get?

Ms. HARDY. Can give. The maximum grant that Massachusetts could give out would be $50,000, to any one grantee.

Massachusetts would receive approximately $162,000.

Mr. CONTE. Thank you, Mr. Chairman.

Mr. NATCHER. Mr. Hoyer?

HEAD START REQUEST

Mr. HOYER. Ms. Hardy, with respect to the Head Start Program, it is my understanding that you have proposed, in effect, a fiscal year 1987 figure which would be the same as was originally proposed in the President's budget for fiscal year 1986, $1.075 billion?

Ms. HARDY. That is correct.

Mr. HOYER. I do not have that figure in front of me. How much was provided in 1985?

Ms. HARDY. 1985 is $1,075,059,000.

Mr. HOYER. So we are effectively proposing for three years running the same figure, is that correct?

Ms. HARDY. Yes.

Mr. HOYER. In that period of time, I presume we have had about 9 percent minimum inflation; which would lead me to believe that we are now somewhere in the neighborhood of about $107 million underfunded in those three years to stay even, would that be correct?

Ms. HARDY. If you are only looking at inflation figures, I assume that is correct.

Mr. HOYER. I am trying to look at it the way the President looks at defense. It angers me, Mrs. Hardy, that—it really does—that the duplicity of the budget considerations between how we treat children and how we treat freedom fighters or hardware or whatever, it really does

In your response, look at the dollars, that is exactly the way the Administration presents the Defense Department budget. I am prodefense, and I happen to take some heat in my District, because I support defense, but I don't see how you make the distinction.

I would be interested in how you make the distinction between staying even with respect to services to children. Has the number of children gone down that we can serve in the Head Start program?

I am not angry with you.

CHILDREN SERVED BY HEAD START

Ms. HARDY. That is fine. The number of children that we have served has increased by over 17 percent in Head Start. The dollars have also increased. There were 387,000 children in 1981, and we now serve 452,000 children.

I am very proud of those figures. We have done a lot in increasing the number of children served by the program, and without necessarily increasing the funding at the same rates as without previously.

We had $900 million, plus or minus, when I came into office, and we now have $1,075,059,000. I think the issue to me is——

Mr. HOYER. Has that been as a result of proposals by the Administration?

Ms. HARDY. Yes, sir. The issue is as I see it, are children in the age range of Head Start getting some kind of service?

The related question is, does it have to be just Head Start services that they are eligible for or receiving? I think there are a lot of other programs available that provide similar services.

OTHER PROGRAMS SERVING CHILDREN

Mr. **Hoyer**. Have we increased in other programs to help?

Ms. **Hardy**. Increased or stayed level. We also are serving a great number of children through other programs beyond Head Start which may not be Federally-funded, but the children are getting service, and that is the issue.

Mr. **Hoyer**. I think that is fair, your point being then that we have statistics that show that States have increased, so that they filled the gap the Federal Government is not filling?

Ms. **Hardy**. South Dakota and California in particular are providing services similar to Head Start programs. We also have Title XX, Social Services Block Grant, which decreased in 1981 about 20 percent, but now is back up to where it was then, and 20 percent of those dollars are spent on child care.

There is a lot of dollars being spent on child care, child care preservices, et cetera.

CHILDREN ELIGIBLE FOR HEAD START

Mr. **Hoyer**. Let me hone in on the 387,000, and 452,000. What is the total market that you identify for the product that Head Start has to deliver, if I can use those terms?

Ms. **Hardy**. Total number of eligible children in this country?

Mr. **Hoyer**. Yes.

Ms. **Hardy**. I do not have that number. I believe that your figure is 2.6 million.

Mr. **Hoyer**. Million?

Ms. **Hardy**. Million.

Mr. **Hoyer**. The Research and Policy Committee for Economic Development strongly supports public investment for low-income children. The name of the 1985 report is, "Investing in Our Children"—oh, that is the name of the report.

If we examine the program for its investment return and convert all costs and benefits into current values based on 3 percent real rate of interest, one year of the program is an extraordinary economic buy, and it would be hard to imagine that society could find a higher yield for a dollar of investment for at-risk children, and I presume the at-risk children are 2.6 million.

ELIGIBLE CHILDREN SERVED BY HEAD START

The President felt that Head Start was one of those programs that was working, as he included in his list of seven safety net programs that would be exempt from cuts. Would it be fair to say then that we are serving approximately 20 percent of that need?

Ms. **Hardy**. Head Start is serving approximately 20 percent of those children.

Mr. **Hoyer**. In light of the fact that the President thinks it is a program that is working, and his Council's report refers to it as an extraordinary buy. Does it make good economic sense? Forget about the social aspects of it.

To only serve 20 percent of the need?

Ms. **Hardy**. If you don't mind, you are trying to tell me that I should serve 100 percent of the need with Head Start. I am more concerned, that as much of the need as possible gets met but I don't think the only way to meet that is Head Start. What the exact number should be, I don't know that.

We have increased the numbers served by Head Start, but as I said, I am not convinced that Head Start should be the only program that serves those 2.6 million children.

Mr. HOYER. I agree with you 100 percent. In light of that, have you made a conclusion as a result of study or information that you have that the 80 percent or a portion thereof are being served by alternative programs that are equally affected?

Ms. HARDY. Absolutely.

Mr. HOYER. Are those studies available, or those figures available?

Ms. HARDY. No, we can not provide those figures for you.

Mr. HOYER. Tell me how we served 385,000 last year and how we're going to serve 453,000 this year.

CARRYOVER BALANCES

Ms. HARDY. One of the things that existed when I came into office was approximately $40 million in carryover balance which we have reduced that substantially.

We believe that we are down, to several million dollars nationwide. All those dollars that were out there have been used for children.

Mr. HOYER. When you say sloshing around——

Ms. HARDY. Unspent.

Mr. HOYER. This morning, the witnesses from the Community Services Administration to us indicated to us that there were substantial funds unobligated in terms of grants, but not spent by the localities, and therefore to some extent, there was a balance which would have to be applied.

Is that a similar case?

Ms. HARDY. Yes, sir.

Mr. HOYER. So they are sloshing around, obligated but not utilized?

Ms. HARDY. No longer. That was in 1981. We now think we are down no single digits and less in terms of having any dollars that are not being used at the time that they should be used.

Mr. HOYER. So, you have cut the 4 percent approximately down to maybe 2 percent or 1 percent, even less than that, if it is 2.3, way under two-tenths of 1 percent. That would not account for, however, the savings that you say have been affected?

EMPHASIS ON ONE YEAR HEAD START EXPERIENCE

Ms. HARDY. It accounts for some of the expansion of children. Two years of budgets increases also account for the expansion of children. As we look to next year, for the 1987 budget, we would like to serve 85 percent of our children for only one year.

We would like to have that change from the approximately 70 percent of our children currently being served for only one year. By decreasing the number of children who are served for two years, we would have additional children with at least one year of Head Start experience.

Mr. HOYER. Has your experience shown you that a two-year continuity is more beneficial to students, four-year-olds essentially?

Ms. HARDY. The year before school essentially, before public school.

Mr. HOYER. We are assuming most public schools have kindergarten available at 5. Have the studies showed that Head Start is more or less effective if it is a two-year program as opposed to one-year?

In other words, what I am asking is, is the second year somewhat redundant, or is it additionally helpful?

Ms. HARDY. There is no evidence that the second year is going to be extraordinarily helpful. Our evidence does indicate that one year of Head Start is extremely positive.

FAMILY CRISIS AND PROTECTIVE SERVICES

Mr. HOYER. Also, I will get off Head Start. My time is very limited.

Family violence, we are cutting down what was about a $39.5 million program to a grant that you call the Family Crisis and Protective Service grant and providing $30.5 million.

What was the reduction in that based on, that is a cut by about 25 percent?

Mr. GOLDSTEIN. When you consider the rescission that has been proposed, we believe we have submitted an increase in funding.

The grant programs that make up the Family Crisis and Protective Services account are the child abuse State grant program, which is proposed for $12 million funding——

Mr. HOYER. I am sorry. There obviously is a dispute, whether we are 22 percent down or 6 percent up.

Mr. GOLDSTEIN. Child abuse State grant program, $12 million. Child abuse discretionary program, 10 million. The family violence program, $2.4 million. Those are what the 1986 appropriation levels would be if the President's recisions were agreed to.

Mr. HOYER. Have you counted the votes on that? Talk about what is going to happen. Would it be $39.5 million? That is for 1986.

Mr. GOLDSTEIN. If you added to it——

Mr. HOYER. Take into consideration sequestration.

Mr. GOLDSTEIN. In those numbers that you have identified, you have the child abuse challenge grant program, which was 1985 appropriations with two-year availability, and another $6 million in family violence with two-year fund availability.

If you add the total of the available appropriations, it is in the area of 39 million versus this. If you take into account the recisions as they were proposed, and the program as we believed they were at the time we proposed this, there would be a slight increase in the available funding.

Ms. HARDY. You are asking about dollars, but there is also another issue here about trying to make a family services formula grant, and the concern that I have is that we encourage the proliferation of small programs to solve problems.

If we put these funds out to the States in a single grant, we would have much better programs at that level.

Mr. Hoyer. I understand.

My time has long since gone, and thank you, Mr. Chairman.

Mr. Natcher. Under your proposed family crisis program, Ms. Hardy, there would be no separate funding for child abuse prevention. I believe that is correct?

Ms. Hardy. Yes, sir.

Mr. Natcher. For 1986, Congress appropriated $26 million for child abuse prevention. Under your proposed consolidation, is it likely that less than $26 million would be spent on child abuse prevention in 1987?

Ms. Hardy. The line items may show a small reduction in that area, but when you pull the other dollars all together, it can be spent as the States and localities see fit, and I think there would be probably about equal money spent on child abuse.

We also propose to retain approximately $6 million at the National Center for Child Abuse and Neglect for discretionary projects out of Washington.

Mr. Natcher. Who are the anticipated family populations for the Family Crisis and Protective Services program?

Ms. Hardy. The anticipated populations are abused and neglected children and elderly, and victims of family violence.

SERVICES PROVIDED

Mr. Natcher. What would be the structure of the new Family Crisis and Protective Services grants program? For example, how would funds be allocated and what services would be authorized?

Ms. Hardy. The services would be very broad. They could be provided to children, to families, to adults, and the dollars would be allocated on a per capita formula basis.

ELDERLY RECEIVING SERVICES

Mr. Natcher. What has been the trend in the number of elderly persons receiving your services over the past two or three years?

Ms. Fraser Fisk. The trend has been a slight increase using our dollars. However, the States and the agencies have been significantly successful garnering support from many other agencies, thereby allowing them to serve many more elderly people.

Mr. Natcher. The total 1987 request for the Administration on Aging is $689.1 million, which is about the same as appropriated for 1984.

With an increase in the elderly population, what effect has level funding had on delivery of basic services to the elderly over the past several years?

Ms. Fraser Fisk. The level funding has caused us to be much more efficient in terms of our operation of the program, so we are sure we are targeting our dollars at those most in need, the vulnerable people who are in danger of losing their independence.

Again, though, sir, the dollars we put out there have been extremely successful in terms of garnering other support. The State units on aging receive 30 percent of their dollars from us, and the area agencies on aging receive 33 percent from us, so you can see they use our dollars as a way to gain a great deal more support.

CONTRIBUTIONS BY THE ELDERLY

Mr. NATCHER. What is the current policy regarding contributions from elderly people toward the cost of home-delivered or congregate meals?

Ms. FRASER FISK. We highly encourage it. However, it is a voluntary contribution, and while we are eager to have those resources so we can serve more older people, we are never going to turn away a person who cannot afford to make any level of contribution.

We encourage project operators to make the voluntary nature of the contribution known, and that is the policy that we espouse on that issue, and that is in keeping with the law.

Mr. NATCHER. Any pressure to contribute?

Ms. FRASER FISK. No; sir, there is none, and we would not tolerate such.

Mr. NATCHER. How much was made available for nutrition services in 1985 and 1986 from the elderly commodity program administered by the Department of Agriculture?

Can you give us some idea as to that figure?

Ms. FRASER FISK. In 1985, it was $120,000, and in 1986, $125.9.

Mr. NATCHER. You don't mean thousand?

Ms. FRASER FISK. Yes, you are correct. Million. We are anticipating $132 million in 1987, Mr. Chairman.

EFFORTS TO INCREASE PROGRAM INCOME

Mr. NATCHER. The justifications indicate that your office will emphasize implementation of processes which increase program income and improve financial and program management to increase the "return on investment" of Title III appropriations.

What specific processes do you have in mind to increase program income?

Ms. FRASER FISK. Program income additions will be generated specifically from a variety of opportunities that we afford older people to make contributions as well as work with private-sector organizations that might make donations to the project services.

TARGETING RESOURCES

Mr. NATCHER. Your budget also refers to targeting resources on those in greatest need. How can your agency target resources? Isn't the use of resources left largely to the State, and to the local agencies?

Ms. FRASER FISK. You are correct, sir, it is left to State and local agencies. However, we work with them by providing models and examples of where other communities have been particularly successful in making sure that low-income minority persons, or particularly the older, old population have been more successfully served.

We share these models with the States and their agencies in the hopes they will find them suitable for their communities. We do not make those decisions for them.

RESULTS OF SEQUESTERING

Mr. **Natcher**. For 1986, an amount of $30,169,000 under programs for the aging is being sequestered as a result of the Deficit Reduction Act. For State formula grants, it appears that each State allocation was reduced by uniform percentage.

Why was the reduction made in this manner?

Ms. **Fraser Fisk**. We felt that we needed to be in keeping with the Congressional mandate, that we would hold harmless State funds at the 1984 level.

Therefore, we took the base of the 1986 allotment and calculated the 4.3-percent reduction after the mandated formula had been run.

Mr. **Natcher**. Would you get a different result in State allocations if you just reduced the total and then applied the distribution formula?

Ms. **Fraser Fisk**. Yes, sir, you would. You would have significant reductions in some States, and minimal in others. The State of Delaware would have sustained a reduction of almost 6.8 percent, perhaps even higher.

Some other States would have sustained reductions of less than 1 percent. We felt that we were in keeping with the mandate of Congress to hold harmless at the 1984 level by running the formula first and then applying the percentage reduction.

We defined each State grant as a program or an activity.

PROPOSED RESCISSION—DEPENDENT CARE

Mr. **Natcher**. The budget proposes to rescind $5 million appropriated for 1986 for the dependent care program. The reason given is that this program can be carried out under the Social Services Block Grant.

It seems to me that all of your programs could be funded under the Social Services Block Grant—is that right?

Ms. **Hardy**. That is correct, and the $5 million dependent care program, many States and localities, the private sector are already responding, and it is an unnecessary expenditure, we feel, Mr. Chairman.

Mr. **Natcher**. With all of the demands on the Social Services Block Grant, what is the likelihood of a State using any of its block grant for dependent care activities?

Ms. **Hardy**. The States already use some of their dollars for information and referral for all sorts of children's programs, including dependent care.

School-age child care, we can try and ascertain if they use their Social Services Block Grant monies for that, but most of the school-age child care programs have assistance either from fee-for-service on a sliding scale or from the corporate sector, or involvement with the private sector.

Mr. **Natcher**. What data are available on current Federal funding related to before and after-school child care? Do you have any data as to that?

Ms. **Hardy**. We have data available for States where they provide school-age child care. To my knowledge, there would be very little before-school child care, but generally after school, care is more common, and we can provide that for you, but we also have additional materials that show that the private sector has gotten very much involved in this area as well.

SOCIAL SERVICES BLOCK GRANT—EFFECT OF SEQUESTERING

Mr. **NATCHER.** Under the Social Services Block Grant, an amount of $116,100,000 is sequestered during 1986. Have you received any information from the States describing the effect of this reduction on social services programs?

Ms. **HARDY.** No, we have not received information from the States regarding that, Mr. Chairman. I believe the States are making their own decisions as to how they want to take reductions.

Mr. **NATCHER.** Do you think $116.1 million reduction will have any effect?

Ms. **HARDY.** I do not believe that the 4.3 percent reduction will have any significant impact, no, sir.

Mr. **NATCHER.** What services do you think will be cut in order to achieve the reduction?

Ms. **HARDY.** If I were a State Administrator, I would look at, one, the administrative side that I might be spending dollars on; two, training, camping, recreation programs, the kinds of decreases that the States did in 1981 when there was a larger decrease.

In other words, not the essential protective services, but the extra services, if you will.

TRANSFERS AMONG BLOCK GRANTS

Mr. **NATCHER.** Do you know if States are planning to shift funds among the various block grant programs to make the reduction as painless as possible? Do you have any information as to what will take place?

Ms. **HARDY.** We do not have that specific information with regard to Gramm-Rudman-Hollings decreases, but we do know that States are working with all of their—either seven or nine block grants that they have received and using those as very flexible dollars, although clearly the Social Services Block Grant money cannot be spent on any kind of construction.

I don't believe there will be any significant service decrease.

Mr. **NATCHER.** Can you give us some idea, Mrs. Hardy, as to how much was transferred last year among the block grants?

Ms. **HARDY.** I was just talking to staff about that, yes, we can. I have seen some studies of the movement between the blocks, and we can supply that for the record.

Mr. **NATCHER.** Place that in the record, please.

[The information follows:]

From: Summary: Social Services Block Grant Pre-expenditure Reports, Fiscal Year 1985

TABLE 6.—ESTIMATED FUNDS TRANSFERRED AMONG BLOCKS

States	From	To	Amount	Percent transferred
1. Alabama	LIHEAP	SSBG	$1.6 mil.	9
2. Arkansas	LIHEAP	SSBG	$1,227,307	9
3. Florida	LIHEAP	SSBG	$2,544,531	9
4. Georgia	LIHEAP	SSBG	$852,694	4
5. Kansas	LIHEAP	SSBG	$2,031,000	11
6. Kentucky	LIHEAP	SSBG	$2,546,022	9
	SSBG	ADAMH	$4,251,381	10
7. Michigan	LIHEAP	SSBG	10%	10
8. Missouri	LIHEAP	SSBG	N/A	....
9. New Jersey	LIHEAP	SSBG	$7.5 mil.	9
10. North Carolina	SSBG	MCHBG	$281,000	4
11. Oregon	LIHEAP	SSBG	$2,456,296	10
12. South Dakota	LIHEAP	SSBG	$1,714,433	15
13. Texas	LIHEAP	SSBG	$4,234,054	9
14. West Virginia	LIHEAP	SSBG	$1,852,969	10
15. Wisconsin	LIHEAP	SSBG	$3 mil.	4
16. Wyoming	LIHEAP	SSBG	$350,000	6
17. Guam [1]	LIHEAP	SSBG	$98,058	99

[1] Consolidated grant.

Based on data from FY 1985 SSBG pre-expenditure reports.

COMMUNITY SERVICES PROGRAMS

Mr. Natcher. For 1987, your budget again proposes to allow States to fund Community Service Block Grant activities under the Social Services Block Grant. Does this proposal require legislation?

Ms. Hardy. I am not running the Community Services Office, sir, but I believe that there is legislation proposed perhaps being reintroduced, because we have proposed this at several points in time.

Mr. Natcher. How would you implement this program, by regulation, or how would you do it?

Mr. Dennis Williams. Mr. Chairman, what we have been proposing is that we believe there is, in general, a great deal of overlap between the two blocks, and already significant authority under the Social Services Block Grant to fund programs now financed by the Community Service Block Grant, but we have also, in the last several years, introduced language into the Social Services Block Grant legislation to make it very clear that the intent to make sure that all programs under the Community Service Block Grant could be funded under the Social Services Block Grant.

Mr. Natcher. Mr. Conte, I yield to you.

SOCIAL SERVICES RESEARCH

Mr. Conte. Thank you, Mr. Chairman.

I see that you have a new line in your Family Social Services account called "Social Services Research." That wouldn't have anything to do with our discussion last year of the way you were using section 1110 authority and reprogramming funds out of child welfare research on the basis of a three-year-old reprogramming request, would it?

Ms. **Hardy**. It does indeed track with last year's discussion. In order to clarify our request, we are proposing a separate line item for section 1110 activities in 1987.

Mr. **Conte**. I would appreciate if you would go back and take a look at this. I believe things are all right, but just take another look at it.

Ms. **Hardy**. Yes, sir.

PROGRAMS UNAUTHORIZED FOR FY 1987

Mr. **Conte**. Which of the programs under the Office of Human Development Services are currently unauthorized for fiscal year 1987?

Ms. **Hardy**. The Head Start program, the Native Americans program, and the new Family Crisis and Protective Services formula grant are the three.

UNEXPENDED BALANCE—BLOCK GRANT

Mr. **Conte**. You continue to display in the budget appendix an unexpended balance in the SSBG of $67 million. Last year, you stated that was due to some pending legislation.

Has that litigation been settled, and what is the Department's potential exposure?

Mr. **Goldstein**. We have still outstanding claims. These claims tend to take some time to be resolved, as they are legal in nature and involve Arizona, Illinois, Kentucky, South Carolina and North Carolina.

They involve claims under the Title XX program for Social Services and State and local training.

CHILD CARE TRAINING FUNDS

Mr. **Conte**. Whatever happened to the $25 million that was added in the September 1985 Continuing Resolution, for child care training, which we did not repeat in the 1986 Continuing Resolution due to the extreme financial restraints we were under? Did all of those funds get spent, and did they produce anything worthwhile?

Ms. **Hardy**. We are still waiting for all of the State reports, Mr. Conte, but not all of the States wanted those dollars, but most of it was spent.

Mr. **Conte**. Do you consider it spent?

Ms. **Hardy**. I am waiting for the figures to come in, yes, but most of the States took the money and the ones who did not took half, because the amendment said that they could have half, even if they didn't comply with the requirements, and they got the other half if they did it.

Some took only half.

Mr. **Conte**. What about the other half?

Ms. **Hardy**. It returns to us. They don't get the second half.

Mr. **Goldstein**. The States had to pass legislation which required certain background checks and things of that nature.

There was a period of time where there was some uncertainty as to whether the State legislators would actually pass that legislation. To the extent that they did not pass the legislation, they were entitled to 50 percent of the money.

To the extent that they did pass the legislation, they were entitled to the entire amount of money. They had a certain period of time since it had to go through their Attorneys General and be submitted into our General Counsel's Office to make a determination as to whether the legislation in fact met the requirements of the law.

All of that is in the process of working its way through the system when we will be able to make a determination as to what the final status of those funds are.

Ms. **Hardy**. They have the dollars, so if they don't go along with all of this litany, we have to go collect it.

Mr. **Conte**. Good luck.

EFFECT OF SEQUESTERING—BLOCK GRANT

Under Gramm-Rudman-Hollings, the Social Services Block Grant, a capped entitlement, is reduced by $116 million. What is there to extinguish the States' right to demand the money that they are entitled to, and to prevent them from taking you to court to provide the $116 million, Gramm-Rudman-Hollings notwithstanding?

Ms. **Hardy**. That would have been the question that I would have asked you, Mr. Conte. I don't have the answer to that.

Mr. **Conte**. How did you take the Gramm-Rudman-Hollings cut in Head Start, and how do you anticipate this cut will affect services, since it takes the fiscal year 1986 post-sequester level well below the fiscal year 1985 level, by about $34 million?

You already answered that, okay.

HEAD START SALARIES REPORT

Moving on, over the past couple of years, we have expressed concern over the level of salaries in the Head Start Program, and requested a report last year. Where does that report stand?

Ms. **Hardy**. The report is on its way. We have looked at—you asked us to look at school personnel versus Head Start personnel, and some of the material that I have here indicates that Head Start salaries increased about 30 percent in the five years that you asked us to look at, 1980 and 1985, and average school salaries for elementary school increased 45 percent, and inflation was 35 percent.

School system salaries rose higher than inflation, while Head Start was a bit lower than inflation, but we are having trouble because you are asking us to compare apples and oranges, so our study needs to be looked at carefully in light of the limitations of the data and the appropriateness of the comparison.

The Head Start teachers, on an hourly wage basis, are doing very well compared to day care. However, if the comparison is with elementary school teachers, who are far more highly credentialed and have more advanced skills, they are paid less than elementary school teachers.

Mr. **Conte**. It looks to me to be way, way less.

What can you tell us about the adequacy of salaries for Head Start employees? Last year, I mentioned to you a teacher-advocate who was making $7,000 a year. There have continued to be reports about Head Start programs having a harder and harder time attracting staff at the current salary levels.

What do you say about this problem?

Ms. HARDY. Mr. Conte?

Mr. CONTE. Everybody is for Head Start. It is a very successful program, as you said earlier, but if you are not going to have the personnel there, the program is going to go down the drain. I know you said we are comparing apples and oranges here, but these people got to eat and have a little protein like the Chairman.

Mr. NATCHER. That is right.

Ms. HARDY. Yes, sir.

FAMILY CRISIS AND PROTECTIVE SERVICES

Mr. CONTE. You are proposing a new block grant, to consolidate the child abuse programs, the Child Abuse Challenge Grant Program, and the Family Violence Program. Why is this a good thing?

Ms. HARDY. Because we have all these programs we feel that they will be better administered if we can put them together, and to give the States one lump sum, let them decide how they want to spend those dollars.

Mr. CONTE. Two programs previously appropriated, the $5 million for the Child Abuse Challenge Grant program, provided in the 1985 supplemental and the Latch Key and Day Care Referral Program, funded at $5 million in the 1986 bill, are proposed for recision.

It doesn't look like any rescissions are going to go through, with April 15 right around the corner. What would be your plans with regard to these two programs?

Ms. HARDY. Well, you can always say hope springs eternal, but if that is not the case, we will go ahead and distribute the dollars, in terms of the dependent care and the challenge grant programs.

LAPSED FUNDS

Mr. CONTE. In the budget appendix, it shows $1.3 million lapsing from the Human Development Services account in fiscal year 1985. Why did that lapse?

Mr. GOLDSTEIN. In 1985?

Mr. CONTE. 1985.

Mr. GOLDSTEIN. In fact, the lapse amount shown in the budget appendix was adjusted to $728,000. These funds lapsed as a result of the natural types of uncertainties that you have at the end of the year in terms of selecting projects that don't materialize, and you run out of time in terms of restriction of the funds.

SEQUESTERING EFFECT—AGING PROGRAMS

Mr. CONTE. All right. I think you more or less answered this, but let's give it another run.

The Gramm-Rudman-Hollings sequester took the AoA funding level for nutrition services from $403 million to $386 million, a level below the fiscal year 1984 appropriation level. Your justification shows 10 million fewer meals for the elderly being served in fiscal year 1986 as a result of Gramm-Rudman-Hollings.

How do meal-providing agencies absorb something like that? Do they stop delivering or providing meals to people already being served? How are we most likely to see the impact there?

Ms. **Fraser Fisk**. We anticipate that to be four meals per individual site. Our intelligence tells us that the providers of those meals have been able to find other ways to assure that they will continue to provide.

Mr. **Conte**. Four meals a week, is that it?

Ms. **Fraser Fisk**. No. Four meals per day per site.

When the site sustains the cuts, they will lose the ability to provide four meals a day.

Mr. **Conte**. Period, no more than that?

Ms. **Fraser Fisk**. That is right, every day, four meals a day.

Mr. **Conte**. They would have to make up four meals?

Ms. **Fraser Fisk**. Correct.

Mr. **Conte**. That could be taken care of. I am more worried about something coming down the line again in 1987.

Ms. **Fraser Fisk**. One of the things that the States and agencies have been successful in doing since the passage of the Act in 1965 is generating other resources.

We have seen a vast increase in the resources that are brought to bear, because they serve as such effective catalysts.

In addition to that, we know they are able to bring to bear other resources from other programs that we have no way of even tracking, so certainly there is concern as we look at reductions in the future.

However, the States and their agencies have increased their effectiveness to leverage other dollars, and we think they will continue to do this.

Mr. **Conte**. Well, we hope so.

SUPPORT FOR ALZHEIMER'S PROJECTS

What activities do you have underway in the area of family support for Alzheimer's patients, and for programs dealing with elder abuse?

Ms. **Fraser Fisk**. In the Alzheimer's area, we have been working through States and their agencies, with the voluntary organizations, the Alzheimer's Disease and Related Disorders Organization, beginning with specific focus on respite, turning to family support groups and now looking at some emergency intervention activities where the local chapters are working in conjunction with area agencies to build a better system network.

In addition, we have in 1985 funded 12 demonstration projects going on around the country, one with the Eastern Massachusetts ADRDA, the Chapter of the Alzheimer's Disease Association, designed specifically to look at public awareness, training of families, Mr. Conte.

Mr. **Conte**. In Boston?

Ms. **Fraser Fisk**. Correct.

The University of Massachusetts is anxious to provide the leadership in elderly abuse. We are working with them in terms of the national incidents study required under both pieces of legislation, and in addition, we have funded a whole series of grants over the years, and finally, States and area agencies use Title III dollars to work with the State Protective Service agencies.

Mr. **Conte**. I appreciate that, and as I mentioned earlier when we opened up: I appreciate many of the things that Dorcas Hardy has done for us.

Mr. **Natcher**. Mr. Hoyer, I yield to you.

REDUCTION IN MEALS

Mr. **Hoyer**. Let me follow up on Mr. Conte's question.

Four meals per site per day?

Ms. **Hardy**. Yes.

Mr. **Hoyer**. You figure a five-day week on that?

Ms. **Fraser Fisk**. Yes.

Mr. **Hoyer**. 20 meals a week?

Ms. **Fraser Fisk**. Yes.

Mr. **Hoyer**. Are there 1,000 sites?

Ms. **Fraser Fisk**. There are 16,000 sites, roughly, in the country.

Mr. **Hoyer**. 16,000 sites.

Ms. **Fraser Fisk**. Yes.

Mr. **Hoyer**. That is four meals per day at each one of those sites.

Ms. **Fraser Fisk**. Yes.

Mr. **Hoyer**. 64,000 less meals per day?

Ms. **Fraser Fisk**. Yes.

Mr. **Hoyer**. 64,000 meals that we have been feeding elderly citizens that we are not going to feed?

Ms. **Fraser Fisk**. No, sir, that is not true. The programs that are operating those meals, or serving those meals, are making provisions to assure that those older people will not go hungry.

They are finding other sources of dollars to cover those meals.

Mr. **Hoyer**. Somebody else is making sure those people won't go hungry, not the Federal Government, is that correct?

Ms. **Fraser Fisk**. That is true. The Older Americans Act program are specifically intended to be catalyst programs, when Congress passed the law in 1965, they were concerned about bringing to bear the whole range or resources, and as the law is written, the States and area agencies are fully intended to use our Federal dollars to leverage other dollars, and we have seen a continued increase in that happening.

REDUCTION IN FEDERAL SUPPORT

Mr. **Hoyer**. Are you aware of how much a cut there has been in Federal dollars? I don't know.

Ms. **Fraser Fisk**. In 1987, none, a restoration to the 1985 level, Mr. Hoyer.

Mr. **Hoyer**. What assurance do you have, I mean do you have figures available and if so, would you provide them for the record that show that the State of Maryland is going to be able to come up with these additional resources?

Ms. **Fraser Fisk**. We will contact the State of Maryland and determine what their local plans are going to be.

Mr. **Hoyer**. I can tell you what Ruth Massinga, the head of our Department of Human Resources, is going to tell you. She is going to tell you the Federal Government is not meeting its commitment to our State or to the Nation.

And I am not upset with you, and I raise my voice not at any one of you, but Ms. Hardy responds in terms of budget, after the sequestration, if anybody tried to tell the President we are going to give the Department of Defense its after-Gramm-Rudman sequestration dollars, he would regurgitate and say it was outrageous that we were giving up, in effect, selling out to the communists.

I don't know who we are selling out here.

Ms. Hardy, cutting back, effectively cutting back on Head Start, cutting out 64,000 meals a day, community services, $335 million, how does that figure in the President's pro-family initiative that he talked about in his State of the Union Address?

64,000 fewer meals for senior citizens, how does that figure in? I have trouble following that.

Ms. **Hardy**. I don't have any trouble. I believe that our President is extremely pro-family. The programs that we support throughout, whether they are directly Federally funded or whether they are through tax credits or tax deductions, the kinds of things we are trying to do in this Administration we believe are extremely pro-family.

As you enumerate the 64,000 meals per day or as we have said in the Gramm-Rudman cuts, the nine or 10 million per year, the fact is that the senior citizens are going to continue in those sites to contribute a little bit to the meals, to reach out to that community, as Ms. Fisk has said, to do the kinds of things that pull it together to make sure those people that need the meals, the services, are the ones who get the services from the public dollar.

And all of that combined with the positive things, we have done indicate that we are indeed very pro-family and that we promote families their staying together and not falling apart.

Mr. **Hoyer**. Do you have any responsibility, or did you have any advice in the Senate's refusal to accept in reconciliation the continuing support of the two-parent families?

Did you get involved in that at all, or are you familiar with that provision rejected by the Senate?

Ms. **Hardy**. No, the welfare discussion, is that what you mean?

WIN PROGRAM

Mr. **Hoyer**. I suppose it would be. The WIN program, just briefly, if you contacted our State, they would tell you they think it is very effective, and we have been effective in servicing and helping various people get into work settings through our WIN program.

On what do you base your conclusion that it is not very effective?

Ms. **Hardy**. We have had some past GAO studies that have helped us make the program more effective, but the issue here is that we believe that the work opportunities initiative proposal coming from the other side of the House, HHS can be a very positive program. It provides 50 percent reimbursement from the Federal government with the States in terms of work programs, and we would have one comprehensive program targeted toward welfare, low-income individuals, and that that would be more effective than what we have in the WIN program at the moment.

Mr. Hoyer. Thank you, Mrs. Hardy.

No further questions.

NATIVE AMERICAN PROGRAMS

Mr. Natcher. Under the Native American program, the budget justification show $26,126,000 for financial assistance grants for 1986. Do you have a distribution of this amount showing, for example, how much is spent on business development, employment programs, housing, travel, management, so forth?

What about it, Mr. Engles? You have been quiet, peaceful, all afternoon.

Mr. Engles. Sir, all of that money will go for the items that you just mentioned.

Mr. Natcher. Can you give us a breakdown as to the different categories I have mentioned, and the overall amount, and place that in the record for us?

[The information follows:]

Expenditures by Objectives

The Administration for Native Americans (ANA) funds grants for specific projects. Projects usually consist of several objectives, the average being approximately three. Objectives are classified according to ANA's three program goals—encouraging Native American self-sufficiency through economic development, through social development, and through the development of institutions of governance. Shown below are the number and estimated dollar amount and percentage of dollar amount of fiscal year 1985 objectives which fall into each category. Estimates are based on preliminary data for grants which were funded in the first quarter of fiscal year 1986.

ANA goal	Number of objectives	Millions of dollars (est.)	Percentage of dollars (est.)
Economic	466	$15.9	58
Governance	214	7.6	28
Social	86	3.8	14
Total	766	27.3	100

Because ANA funds projects and objectives, we do not capture data below the objective level. Consequently, the amounts fiscal year 1985 grantees spent on budget line items such as travel, management, etc., have not been compiled.

Mr. Natcher. On pages 111 and 112 of the justifications, you show examples of recent accomplishments under your Native American program. Were all of these accomplishments achieved solely under your grant program, or were there other funds involved?

Mr. Engles. No, sir, all of the programs included non-Federal dollars, and we require that they have 20 percent match of non-Federal dollars with any grant and tribal funds, private sector funds, a good mix of a lot of different money.

Mr. Natcher. It seems at times to us that there is considerable duplication between your projects and those of other Federal agencies funding Indian activities such as the Bureau of Indian Affairs, Small Business Administration, Department of Labor, Department of Housing and Urban Development. Is there any duplication as to the major programs or projects that we have here?

Mr. ENGLES. In the areas of social and economic development, there are goals being pursued by other agencies with regard to Indian people, but we serve a segment, namely the urban, off-reservation Indians that are prohibited by law from being served by the BIA, and all in all—and our Native Americans Program Act requires we do not duplicate other Federal Indian programs, so I don't think there is a great deal of duplication.

Mr. NATCHER. Are you involved with other Federal agencies in the joint funding of Indian assistance programs?

Mr. ENGLES. There are times when we enter into interagency agreements to fund projects with the BIA, Department of Housing and Urban Development and other agencies on specific projects, yes, sir.

Mr. NATCHER. Mr. Conte, do you have any additional questions?

CHILDREN'S PROGRAMS

Mr. CONTE. I will put them in the record. I wanted to ask, we hear a lot about children's programs, the adequacy of our efforts regarding the needs of children, and yet, a lot of times, I don't feel there is enough acknowledgment of what we have done, and what we provide, in foster care for instance, funding has gone from $295 million in fiscal year 1982 to a level of $507 million, a half a billion dollars, in fiscal year 1986. And in adoption assistance, money has gone from $5 million in 1982 to an enacted level of $42 million in fiscal year 1986.

They just keep growing. Child welfare service has grown from $156 million in 1982 to an appropriated level of $207 million in 1986, prior to Gramm-Rudman.

It seems that our level of commitment to children just in this one area has been increasing steadily, by leaps and bounds, so why is the message so hard to get across that we are doing something? Everybody says we are not doing enough.

Ms. HARDY. I don't have the answer to that. I certainly have tried to talk to anybody any place anywhere about adoptions, about trying to decrease foster care and get kids back to their families, or united with their adoptive family.

I have spent a considerable amount of time and effort in doing that. We can just keep trying harder.

Mr. CONTE. You can't get an adoption around my part of the country. If you want to adopt a baby, you can't find one.

Ms. HARDY. The adoptions that that $45 million relates to are not infant adoptions. They are special needs adoptions. I can refer you to the Western office of the Massachusetts Resource Exchange, they would be very helpful.

Mr. CONTE. All right, I get the message.

Mr. HOYER. You got more of an answer than maybe you wanted.

Mr. CONTE. Oh, no. It was perfect.

Thank you, Mr. Chairman.

CLOSING REMARKS

Mr. **Natcher**. Mrs. Hardy, we want to thank you and your associates for appearing before our committee on behalf of your budget request for fiscal year 1987.

This has been a good hearing, Ms. Hardy. We will see you next year in another agency, and you will do well.

Ms. **Hardy**. Thank you, Mr. Chairman.

Mr. **Natcher**. The committee will now adjourn until April 7.

[The following questions were submitted to be answered for the record:]

CHILD CARE PERSONNEL

Mr. Natcher. The 1985 Continuing Resolution required States to implement by September 30, 1985, procedures for checking on the background, employment history, and criminal records of operators and employees of child care facilities. Failure to do so would mean that States would forfeit one-half of the allotment made for training and retraining. How many States implemented procedures by September 1985 to check on the background of staff of child care facilities? N-1

Ms. Hardy. Ten States submitted State laws to OHDS to meet the requirement for national criminal record checks. These laws are being reviewed by the Department's Office of General Counsel for compliance with Public Law 98-473.

Thirty-nine States reported State laws or regulations in effect to require employment history and background checks based on a survey conducted in August 1985.

Mr. Natcher. Have steps been taken to recover one-half of the allotment from States that have not implemented the required procedures? N-2

Ms. Hardy. The statute provides that a State's allotment will be reduced in FY 1986 or FY 1987 if these requirements have not been met.

We plan to reduce State allotments in FY 1987 after the General Counsel's office has reviewed all State laws submitted for review and after we verify (after the end of the fiscal year) how much of its allotment each State has drawn down. Each State has two years in which to use FY 1985 funds, so we will not have final numbers until the end of FY 1986. The reduction will be applied only if a State did not enact the required State law and regulations (procedures) and only if a State drew down more than one-half of its allotment.

Mr. Natcher. Do you have any specific information on the procedures that States are using to make background checks? N-3

Ms. Hardy. The ten States that submitted State laws requiring national criminal record checks also submitted their laws or regulations requiring background and employment history checks. We have this information only for those 10 States.

FAMILY SOCIAL SERVICES

Mr. Natcher. The budget includes extensive bill language which--among other changes--proposes to reduce to $200 million the level of child welfare services needed to "trigger" an automatic cap on Foster Care. What is the dollar impact of these proposed changes?

Ms. Hardy. Under the Administration's proposal, Fiscal Year 1987 savings would be $38,690,000.

Mr. Natcher. Doesn't this proposed bill language have the effect of changing existing law?

Ms. Hardy. Yes, this proposed bill language has the effect of changing existing law and is consistent with HR 2894 and S 1266 introduced in June 1985.

CHILD WELFARE RESEARCH

Mr. Natcher. The 1987 budget proposes a reduction of $5.3 million for child welfare research. What is the expected impact of this reduction on the child welfare programs, generally?

Ms. Hardy. We have, over the past several years, used the child welfare section 426 (research) funds to stimulate new resources and approaches (i.e., permancy planning and prevention of placement emphasis) to accompany the state's responses to directives laid out in P.L. 96-272. With the solid base generated by past research and demonstrations, we will have sufficient funds to continue to move forward and build on these efforts.

USE OF SECTION 1110 FUNDS

Mr. Natcher. What is the advantage of funding Child Welfare R&D under both the general authority of Section 1110 of the Social Security Act and the specific authority for Child Welfare R&D?

Ms. Hardy. For the past few years, funds appropriated under Child Welfare Research and Demonstration have been used to support cross-cutting projects under Section 1110 of the Social Security Act. For Fiscal Year 1987, funds have been requested separately to support activities authorized under Section 1110. The request for Child Welfare discretionary activities has, therefore, been reduced by $2,400,000 and an equivalent amount has been requested for Section 1110 activities. For Fiscal Year 1987, $6,000,000 has been requested to support Child Welfare discretionary activities.

The advantage of cross-cutting projects supported with Section 1110 funds is that a single project can address areas of concern to several programs with a project which benefits multiple populations, thus reducing costly duplication of effort. This is a cost-effective means to eliminate redundancy in Federally-supported research and demonstrations while at the same time providing a flexible funding source which can cut across program areas and target populations.

USE OF SECTION 1110 FUNDS FOR CHILD WELFARE

Mr. Natcher. Will the Section 1110 funds be used for Child Welfare only?

Ms. Hardy. These funds will be used to support a variety of activities, including child welfare but not only child welfare. Section 1110 funds are requested for Fiscal Year 1987 to support cross-cutting research, demonstration, evaluation, dissemination and utilization activities to increase family and individual self-sufficiency through State, local and tribally-administered human service programs. The major areas to be addressed are integrated service delivery systems for human service programs, individual and family self-sufficiency and program/management effectiveness.

EMPLOYMENT RELATED ACTIVITIES

Mr. Natcher. The 1984 amendments to the Developmental Disabilities Act require that, beginning in 1987, the State plan is to include employment related activities among the services to be provided under the plan, if the appropriation for State grants is at least $50.25 million. As you know, the request for 1987 for the Basic State program is $50.25 million.

What steps have you taken to provide assistance to the States to implement the employment related activities required by law?

Ms. Hardy. The Administration on Developmental Disabilities provides assistance to the States in implementing the mandate for addressing employment-related activities through direct technical assistance. This technical assistance includes site visits, telephonic, electronic, and written advice and guidance on a continuing basis by the Administration on Developmental Disabilities and through a grant to the National Association of Developmental Disabilities Councils. Project activities of the National Association of Developmental Disabilities Councils included provision of training seminars to State Developmental Disabilities Council members and staff in March, May, July, and November of 1985. Training also was provided through grantees and staff at the ADD Commissioner's Forum in March 1986. In addition to training, technical manuals were developed, including "Guidelines for Evaluating, Reviewing and Enhancing Employment-Related Services for People with Developmental Disabilities" -- 900 copies were distributed to Councils and other State agencies. Dissemination of technical materials pertaining to employment-related activities is also part of the ongoing effort by the Administration on Developmental Disabilities to assist States.

Mr. Natcher. Is the current emphasis on employment and supported work causing less attention to services for those developmentally disabled persons not able to participate in these employment activities?

Ms. Hardy. There is no evidence to indicate any decrease in the level of services provided by the States as a result of increased attention to the provision of employment related services. In fact, according to data submitted by State Planning Councils for Fiscal Year 1985, States continue to leverage increasing amounts of non-Federal resources to provide opportunities for expanded services in the Priority Services Areas of Child Development and Alternative Community Living Arrangements. States have become increasingly more adept at accessing Title XIX resources to expand the number and variety of group homes and other community-based residences. An emerging new area in States with large incidences of low-birth weight and/or high infant mortality is pre-natal and parent education services to high risk teenage populations. This effort is to prevent or decrease the rate of incidence of developmental disabilities in low income, minority, and teenage groups.

PROTECTION AND ADVOCACY

Mr. Natcher. Have State protection and advocacy systems been able to fully meet the demand for assistance with the funding available in 1985 and 1986?

Ms. Hardy. Yes. States have used Developmental Disabilities funds to leverage an array of State and other resources. Protection and Advocacy Systems operate Statewide, as required by law, and many of them obtain Statewide coverage through *pro bono* arrangements, the extensive use of volunteers, and most frequently through referral of developmentally disabled persons to other agencies.

INTERAGENCY COMMITTEE

Mr. Natcher. The 1984 amendments to the Developmental Disabilities Act require the establishment of an interagency committee to plan and coordinate Federal activities for the developmentally disabled. Is this interagency committee in operation and meeting regularly?

Ms. Hardy. As required by the 1984 Developmental Disabilities Act amendments, an interagency committee has been established and implemented. The committee was formed, agency representatives identified, and the initial meeting held in September 1985, with the basic agenda being to provide orientation and plan future activities. The second meeting, conducted March 27, 1986, addressed major issues pertaining to employment and community living arrangements. It provided for an exchange of information on individual agency activities and a discussion of strategies. A third meeting has been scheduled for May 17, 1986.

SPECIAL PROJECTS

Mr. Natcher. The budget proposes to eliminate funding 1986 and 1987 for special projects relating to the developmental disabilities program. For the record, insert a list of the projects funded in 1985.

Ms. Hardy.

STATE	CONGRESSIONAL DISTRICT	GRANTEE/ PROJECT TITLE	TYPE OF AWARD/ PERIOD
Arkansas	01	East Arkansas Area Agency on Aging: Life Care Planning for Rural Elderly Parents of Developmentally Disabled Dependent Children	New/ 06/28/85- 06/27/88

STATE	CONGRESSIONAL DISTRICT	GRANTEE/ PROJECT TITLE	TYPE OF AWARD/ PERIOD
American Samoa		Office of Vocational Rehabilitation: Project Feso'otaiga (Bridge), American Samoa's Link Between Special Education and Personal Vocational Growth	New/ 01/01/85- 12/31/85
California	42	Harbor DD Foundation, Inc.: Training and Placement of Developmentally Disabled Individuals in Occupations	Supplement/ 09/30/83- 09/29/85
California	42	Harbor DD Foundation Inc.: Dissemination of Activities for Training and Placement of Developmentally Disabled Individuals	Supplement/ 09/30/83- 03/31/86
District of Columbia		Expand Employment Opportunities for Persons with Disabilities (Interagency Agreement With OSERS/ Department of Education)	Interagency Agreement
District of Columbia		Planning and Conduct of A Surgeon General's Workshop on Violence and Public Health (Interagency Agreement With Public Health Service and Department of Justice)	Interagency Agreement
District of Columbia		Inspire '85 (Interagency Agreement With the President's Committee on Employment of the Handicapped, Department of Labor)	Interagency Agreement
District of Columbia		National Association of Rehabilitation Facilities: Work Information Network for the Developmentally Disabled	New/ 08/01/85- 10/31/86
District of Columbia		National Restaurant Association: Training VR Professionals to Conduct a Food Service Operation	New/ 08/01/85- 07/31/86

STATE	CONGRESSIONAL DISTRICT	GRANTEE/ PROJECT TITLE	TYPE OF AWARD/ PERIOD
District of Columbia		Council of State Planning Agencies-- State Leadership and Developmentally Disabled Worker Employment	Supplement/ 07/15/84- 01/31/86
Hawaii	01	Hawaii State Planning Council on Developmental Disabilities: Employment and Income Generation	New/ 08/01/85- 07/31/86
Illinois	07	University of Illinois at Chicago: Changing Effects of Community Services on Family Adoption to MR Adults Over Time	New/ 12/01/84- 04/30/86
Illinois	07	University of Illinois: Expenditure Analysis Project, Phase II	New/ 07/01/85- 11/30/86
Illinois	01	American Bar Association: Life Services Plans for the Elderly and Developmentally Disabled	New/ 07/01/85- 06/30/87
Illinois	01	American Planning Association: Revising Zoning Ordinances to Encourage Group Homes for the Developmentally Disabled	New/ 09/01/85- 04/30/86
Maine	01	Maine Department of MH/MR: Community Based Respite Care Project for Families Providing Care to Developmentally Disabled Children at Home	New/ 09/30/85- 09/29/88
Maryland	06	Melwood Horticultural Training: The Melwood Custodial and Damage Goods Centers Job Development Project	New/ 01/01/85- 01/31/86

STATE	CONGRESSIONAL DISTRICT	GRANTEE/ PROJECT TITLE	TYPE OF AWARD/ PERIOD
Maryland	08	National Council for Therapy and Rehabilitation through Horticulture: Horticulture Hiring the Disabled--Transitions	New/ 09/30/85- 09/29/88
Massachusetts	08	Massachusetts Department of Public Health: Recruitment Plus Support Project	New/ 09/01/85- 08/31/87
Massachusetts	09	Children's Hospital, Boston: EAP: An Industrial Response to Employment Retention for the Developmentally Disabled Adult	New/ 07/01/85- 11/30/86
Massachusetts	09	Human Services Research Institute: Methods for Assessing, Ensuring and Enhancing the Stability of Residential Services	New/ 09/01/85- 01/31/87
Minnesota	06	Vinland National Center: National Model for Recruiting Private Sector Volunteers	New/ 06/01/85- 05/31/86
Nebraska	02	University of Nebraska: Effective and Efficient Community Services for the Most Challenging to Serve	New/ 09/01/85- 08/31/88
Nebraska	02	University of Nebraska: Job Matching and Job Placement Systems for Elderly and Developmentally Disabled	New/ 07/01/85- 11/30/86
New York	05	United Cerebral Palsy Association of Nassau County, Inc.: Family Cooperative Respite Demonstration Program	Supplement/ 09/01/83- 06/01/85
North Carolina	10	Appalachian State University: Project SHARE	New/ 09/01/85- 08/31/86

STATE	CONGRESSIONAL DISTRICT	GRANTEE/ PROJECT TITLE	TYPE OF AWARD/ PERIOD
Pennsylvania	19	Association for Habilitation and Employment of the Developmentally Disabled, Inc. (AHEDD): Competitive Employment Through Employer-Assisted Job Search Training	Supplement/ 09/30/84-02/28/86
South Dakota	01	University of South Dakota, School of Medicine, Center for the Developmentally Disabled	New/ 09/01/85-01/31/87
Tennessee	01	Douglas Cooperative, Inc.: Transition Assistance Project for the Developmentally Disabled	New/ 09/01/85-03/31/88
Vermont	01	University of Vermont: Support for Families through Integration of Persons with Developmental Disabilities into Community Recreation Programs	New/ 08/01/85-07/31/88
Virginia	08	Hartwood Foundation, Inc.: Hartwood Homes	New/ 09/01/85-01/31/87
Virginia	02	Sugar Plum Corporation: Sugar Plum Bakery	New/ 09/01/85-08/31/86
Virginia	07	Planned Lifetime Assistance Network (PLAN): Planned Lifetime Assistance Network Program	New/ 07/01/85-06/30/88
Virginia	03	Virginia Department of Rehabilitative Services: Impact of an Extended Array of Employment and Service Support for Transitioning P.L. 94-142 Students	New/ 09/01/85-08/31/88

STATE	CONGRESSIONAL DISTRICT	GRANTEE/ PROJECT TITLE	TYPE OF AWARD/ PERIOD
Virginia	10	Arlington Community Residences, Inc.: An Innovative Approach to Voluntarism in Community Based Social Services	Supplement/ 03/01/83- 05/31/85
West Virginia	03	West Virginia University: Employee Assistance Program for the Developmentally Disabled	New/ 09/01/85- 01/31/87
Wisconsin	02	University of Wisconsin: DD Funds Orienteering for Persons with Developmental Disabilities	Supplement/ 06/01/83- 04/30/85
Wisconsin		Wisconsin Department of Health and Social Services: Modifying Traditional Child Welfare Services for Developmentally Disabled Children	New/ 09/01/85- 08/31/87

FUNDS FOR STATE AGENCIES

Mr. Conte. How much money in FY 1986, or the last year for which you have data, is going to State Agencies, and what do they use these funds for?

Ms. Hardy. In FY 1985, State Agencies used $29 million in Title III funds for State Agency activities. An additional $1.8 million in Title IV funds were made available to certain States to maintain the total amount of funds available to those States for administrative activities in FY 1984, in accord with the guidance provided in the Conference Report accompanying the 1984 amendments to the Older Americans Act. These funds are used to support State Agency staff who assist in the development of comprehensive, coordinated systems of services for older persons in their States, provide guidance and technical assistance to Area Agencies on Aging, determine the needs of older persons in the States, provide training for Area Agency and service provider staffs, including ombudsmen and legal services providers, and carry out a variety of technical and administrative functions necessary to assure proper and efficient use of Title III funds within the State.

In addition, a number of State Agencies applied for and were approved for specific demonstration, training or model project activities under Title IV of the Act.

FEDERAL COUNCIL ON AGING

Mr. Conte. You mention in your justification that the Federal Council on the Aging has produced a number of reports that sound topical -- The Relevance of Long-Term Care Insurance for Family Caregivers, and A Health Care Study for Older Americans. Have these reports been distributed at all, can we take a peek at them?

Ms. Hardy. The two Federal Council staff studies referred to: The Relevance of Long-Term Care Insurance for Family Caregivers and A Health Care Study for Older Americans are in the following status: The first is available for distribution in summary form. It was prepared specifically for an Insurance Seminar in which the Federal Council participated. The complete study has not been released for printing by the FCA.

The second, an indepth FCA staff study has been released for printing by the FCA and is presently undergoing cost, distribution, and clearance procedures in HHS.

Both are available to read at the Federal Council on the Aging office in Room 4243, HHS North Building; Phone: (202) 245-2451.

EMPLOYMENT INITIATIVE

Mr. Conte. Last year, you indicated a major new focus of the Developmental Disabilities Program was on employment, and that you had announced a goal of employing 100,000 people. How is that initiative going?

Ms. Hardy. The President's Employment Initiative for Persons with Developmental Disabilities set job placement goals of 25,000 for 1984, 50,000 for 1985 and 75,000 for 1986, a total of 150,000 placements for the three years. A major accomplishment to date has been 82,000 placements (exceeding the goal of 75,000 for the period). We expect that our goal of 75,000 placements for 1986 also will be exceeded because of the substantial momentum created over the past two years, especially the growing involvement of the public and private sector in generating expanded employment opportunities in the integrated marketplace.

SPECIAL PROJECTS

Mr. Conte. What purposes are you using the Special Projects grant program for?

Ms. Hardy. In 1985, the $2,700,000 appropriation for Special Projects was used for 38 projects focusing on three major areas within the field of developmental disabilities. These included employment, community-based living arrangements and preventive strategies to support families with developmentally disabled family members. An analysis of how the appropriation was spent is as follows:

TOPIC	TOTAL $ AMOUNT	% OF TOTAL SPECIAL PROJECT APPROPRIATION
Employment	$1,453,911	54
Community-Based Living Arrangements	506,251	19
Support to Families	612,710	23
Other	127,128	4

SPECIAL PROJECTS

Mr. Conte. For the record, would you provide a list of grantees in FY 1985?

Ms. Hardy.

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Arkansas	01	East Arkansas Area Agency on Aging: Life Care Planning for Rural Elderly Parents of Developmentally Disabled Dependent Children	New/ 06/28/85-06/27/88
American Samoa		Office of Vocational Rehabilitation: Project Feso'otaiga (Bridge), American Samoa's Link Between Special Education and Personal Vocational Growth	New/ 01/01/85-12/31/85
California	42	Harbor DD Foundation, Inc.: Training and Placement of Developmentally Disabled Individuals in Occupations	Supplement/ 09/30/83-09/29/85
California	42	Harbor DD Foundation Inc.: Dissemination of Activities for Training and Placement of Developmentally Disabled Individuals	Supplement/ 09/30/83-03/31/86
District of Columbia		Expand Employment Opportunities for Persons with Disabilities (Interagency Agreement With OSERS/ Department of Education)	Interagency Agreement
District of Columbia		Planning and Conduct of A Surgeon General's Workshop on Violence and Public Health (Interagency Agreement With Public Health Service and Department of Justice)	Interagency Agreement

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District of Columbia		National Association of Rehabilitation Facilities: Work Information Network for the Developmentally Disabled	New/ 08/01/85-10/31/86
District of Columbia		National Restaurant Association: Training VR Professionals to Conduct a Food Service Operation	New/ 08/01/85-07/31/86
District of Columbia		Council of State Planning Agencies--State Leadership and Developmentally Disabled Worker Employment	Supplement/ 07/15/84-01/31/86
Hawaii	01	Hawaii State Planning Council on Developmental Disabilities: Employment and Income Generation	New/ 08/01/85-07/31/86
Illinois	07	University of Illinois at Chicago: Changing Effects of Community Services on Family Adoption to MR Adults Over Time	New/ 12/01/84-04/30/86
Illinois	07	University of Illinois: Expenditure Analysis Project, Phase II	New/ 07/01/85-11/30/86
Illinois	01	American Bar Association: Life Services Plans for the Elderly and Developmentally Disabled	New/ 07/01/85-06/30/87

STATE	CONGRESSIONAL DISTRICT	GRANTEE/ PROJECT TITLE	TYPE OF AWARD/ PERIOD
Illinois	01	American Planning Association: Revising Zoning Ordinances to Encourage Group Homes for the Developmentally Disabled	New/ 09/01/85- 04/30/86
Maine	01	Maine Department of MH/MR: Community Based Respite Care Project for Families Providing Care to Developmentally Disabled Children at Home	New/ 09/30/85- 09/29/88
Maryland	06	Melwood Horticultural Training: The Melwood Custodial and Damage Goods Centers Job Development Project	New/ 01/01/85- 01/31/86
Maryland	08	National Council for Therapy and Rehabilitation through Horticulture: Horticulture Hiring the Disabled--Transitions	New/ 09/30/85- 09/29/88
Massachusetts	08	Massachusetts Department of Public Health: Recruitment Plus Support Project	New/ 09/01/85- 08/31/87
Massachusetts	09	Children's Hospital, Boston: EAP: An Industrial Response to Employment Retention for the Developmentally Disabled Adult	New/ 07/01/85- 11/30/86
Massachusetts	09	Human Services Research Institute: Methods for Assessing, Ensuring and Enhancing the Stability of Residential Services	New/ 09/01/85- 01/31/87
Minnesota	06	Vinland National Center: National Model for Recruiting Private Sector Volunteers	New/ 06/01/85- 05/31/86

STATE	CONGRESSIONAL DISTRICT	GRANTEE/ PROJECT TITLE	TYPE OF AWARD/ PERIOD
Nebraska	02	University of Nebraska: Effective and Efficient Community Services for the Most Challenging to Serve	New/ 09/01/85-08/31/88
Nebraska	02	University of Nebraska: Job Matching and Job Placement Systems for Elderly and Developmentally Disabled	New/ 07/01/85-11/30/86
New York	05	United Cerebral Palsy Association of Nassau County, Inc.: Family Cooperative Respite Demonstration Program	Supplement/ 09/01/83-06/01/85
North Carolina	10	Appalachian State University: Project SHARE	New/ 09/01/85-08/31/86
Pennsylvania	19	Association for Habilitation and Employment of the Developmentally Disabled, Inc. (AHEDD): Competitive Employment Through Employer-Assisted Job Search Training	Supplement/ 09/30/84-02/28/86
South Dakota	01	University of South Dakota, School of Medicine, Center for the Developmentally Disabled	New/ 09/01/85-01/31/87
Tennessee	01	Douglas Cooperative, Inc.: Transition Assistance Project for the Developmentally Disabled	New/ 09/01/85-03/31/88
Vermont	01	University of Vermont: Support for Families through Integration of Persons with Developmental Disabilities into Community Recreation Programs	New/ 08/01/85-07/31/88
Virginia	08	Hartwood Foundation, Inc.: Hartwood Homes	New/ 09/01/85-01/31/87

STATE	CONGRESSIONAL DISTRICT	GRANTEE/ PROJECT TITLE	TYPE OF AWARD/ PERIOD
Virginia	02	Sugar Plum Corporation: Sugar Plum Bakery	New/ 09/01/85-08/31/86
Virginia	07	Planned Lifetime Assistance Network (PLAN): Planned Lifetime Assistance Network Program	New/ 07/01/85-06/30/88
Virginia	03	Virginia Department of Rehabilitative Services: Impact of an Extended Array of Employment and Service Support for Transitioning P.L. 94-142 Students	New/ 09/01/85-08/31/88
Virginia	10	Arlington Community Residences, Inc.: An Innovative Approach to Voluntarism in Community Based Social Services	Supplement/ 03/01/83-05/31/85
West Virginia	03	West Virginia University: Employee Assistance Program for the Developmentally Disabled	New/ 09/01/85-01/31/87
Wisconsin	02	University of Wisconsin: DD Funds Orienteering for Persons with Developmental Disabilities	Supplement/ 06/01/83-04/30/85
Wisconsin		Wisconsin Department of Health and Social Services: Modifying Traditional Child Welfare Services for Developmentally Disabled Children	New/ 09/01/85-08/31/87

Mr. Conte. How well do you feel we are coping with the issue of providing for severely developmentally disabled persons who have lived at home, and who need to be taken care of after their parents are no longer able to do so?

Ms. Hardy. Elderly persons comprise the most rapidly growing demographic segment of the population of residential facilities for developmentally disabled people. An ADD Special Project grant to the University of Minnesota University Affiliated Satellite Center is an example of future directed systemic planning for long term residential and support services for elderly persons with developmental disabilities designed to avoid inappropriate or unwanted nursing home or institutional placement.

The University of Minnesota project entitled "A National Study of Residential and Support Services for Elderly Developmentally Disabled People", will allow ADD and other agencies to refine policies and programs to promote improved accessibility to and quality of services based on validated research on the size and nature of the elderly developmentally disabled population, the characteristics of clients and services in residential and day programs for elderly developmentally disabled people, and identification of state research and client needs assessment activities. As a result of ongoing research, the Administration on Developmental Disabilities will be able this summer to: 1) summarize information on the size and characteristics of the elderly developmental disabilities population, services provided to and needed by that population, and policies and programs developed by states to meet its needs; 2) report on nationally representative data on numbers and characteristics of elderly developmentally disabled persons in residential and day placements, services received and judged as needed; and 3) reanalyze existing nationally representative data sources that contain specific information on the size and nature of the elderly developmental disabilities population.

The Eunice Kennedy Shriver Center for Mental Retardation (UAF) in Waltham, Massachusetts has conducted a national survey of programs serving elderly developmentally disabled persons. The product of this UAF activity is A National Directory of Programs Serving Elderly Mentally Retarded Persons. Copies of this document are available from the Administration on Developmental Disabilities and from the Shriver Center.

Additionally, a cluster of three Special Project grants have been awarded to help families anticipate and plan for life services. These projects include:

> Planned Lifetime Assistance Network (Charlottesville, Virginia): Program to Develop Personal and Resource Plans for the Handicapped -- This three year project will assist families in developing plans to effectively use their resources to provide for future care of their disabled dependents. The project provides personal counseling to each family to design a detailed financial plan and social plan to meet the requirements of the disabled individual during his parents' lives and after their deaths.

American Bar Association: Life Service Plans for the Elderly and the Developmentally Disabled -- This grant will establish a program to help elderly and developmentally disabled persons prepare life service plans based on financial and estate planning, as well as alternative supervisory arrangements available to support clients in the community. This project and the handbook to be developed will focus on preventive planning to deal with life crises that traditionally have resulted in institutionalization or unwarrranted guardianships.

East Arkansas Area Agency on Aging: Life Care Planning for Rural Elderly Parents of Developmentally Disabled Children -- This project plans to develop and implement life care planning options for parents aged 60 and over with adult developmentally disabled dependents.

The Administration on Developmental Disabilities is also funding a cluster of Special Projects which look specifically at four models of community living. These range from a parent-owned and operated apartment demonstration to an exploration of the disincentives to the development and operation of small group homes.

These specific project descriptions drawn from both the Special Projects and UAF systems are but a few examples; additional examples of coping strategies can be found within State systems directed by Developmental Disabilities Councils and Protection and Advocacy agencies. The Administration on Developmental Disabilities continues to be committed to a multi-faceted and comprehensive approach to the issue of appropriate programming for severely developmentally disabled persons.

CHILD WELFARE RESOURCE CENTERS

Mr. Conte. We've talked in the past about the Child Welfare Resource Centers, where the grantees were discontinued in 1985, with new competitions in FY 1986. What is the current status of these new centers?

Ms. Hardy. Six national resource centers were funded at the end of FY' 85. These are: Family Based Preventive Services, University of Iowa, $258,111; Foster and Residential Care, Child Welfare Institute, Atlanta Georgia, $259,829; ABA Center for Legal Resources, Washington, D.C., $216,178; Program Management and Administration, University of South Maine, $199,877; Center for Youth Services, University of Oklahoma, $254,287; Special needs Adoptions, Spaulding for Children, Chelsea, Michigan, $200,000. Applications in three other areas were not considered to be sufficiently responsive to the announcement. These were Child Abuse, Child Sexual Abuse and Child Welfare Services to developmentally disabled children. A separate announcement was published on November 5, 1985 for those areas. Twenty-two applications were received and are being reviewed. Funding for those centers should be completed by the end of May, 1986.

Mr. Conte. What is the status of the awarding of a contract for a national center?

Ms. Hardy. There is no plan for a single national center. Nine centers will ultimately be funded for improving child welfare services where State and local agencies most need assistance. The Resource Centers will function as centers of excellence to improve the delivery and management of social services. They will provide leadership in the identification, utilization and development of program models, systems, training programs and other resource where we know the greatest program improvement needs exist. The areas chosen are foster care, special needs adoption, preventive services, services to developmentally disabled children, program management and administration legal resources, child abuse and neglect, child sexual abuse and youth services.

BILINGUAL MILTICULTURAL PROGRAM

Mr. Roybal. How has the Department supported bilingual multicultural activities in the Head Start Program now that the Department no longer funds the Early Childhood Bilingual Multicultural Resource Centers?

Ms. Hardy. Under the new bilingual multicultural system, 27 exemplary Head Start grantees located throughout the country have been awarded funds to form a resource network and provide bilingual multicultural training to neighboring grantees wishing to implement a bilingual multicultural program. In addition, the three current Resource Support Grantees (RSGs) located in those regions with the highest percentage of hispanic families received supplemental funds during FY 1986 to provide support for the exemplary grantees as they initiate the development of the new bilingual resource system.

The new resource system will have two phases. During phase 1 (FY 1986) the selected exemplary grantees will be responsible for continuation and expansion of training within their own program. In addition, they will be required to provide on-site training to two neighboring Head Start programs who would like assistance in implementing a bilingual multicultual program. The exemplary grantees will receive training and support from the Resource Support Grantee. The RSG will also assist in the training being provided by the exemplary grantee.

During phase 2 (FY 1987), the localization of bilingual multicultural training will be increased. Each selected exemplary grantee will serve at least five Head Start grantees within their region. This will be done through cluster and on-site training. One RSG will be funded to assist the regional and national office in monitoring the training being provided by the exemplary grantees.

MAINTAINING HEAD START ENROLLMENT

Mr. Roybal. How will Head Start grantees serve the same number of children in 1987 as they did in 1985 and 1986 at the FY 85 appropriation level without affecting the quality of the program?

Ms. Hardy. In FY 1987 the Head Start program hopes to maintain its FY 1986 enrollment by working closely with all our grantees to assure that all Head Start programs are making maximum use of their resources. We will continue to work with our grantees to assist them in securing alternative resources so that Head Start dollars continue to be used only for those costs that cannot be paid from other sources (i.e. Medicaid, local government agencies, etc.). We will also be working with programs to assure that they maintain adequate class sizes and we expect to be able to increase the size of some Head Start classes in those programs which maintain class size well below the national average. If there are instances in which a program cannot maintain enrollment without suffering a decline in quality we will, as always, put quality as our first consideration.

LONG TERM CARE RESEARCH CENTERS

Mr. Roybal. How do you plan to fund the 11 long-term care gerontology centers as directed by the Conference Report accompanying the FY 1986 Appropriations Bill?

Ms. Hardy. The 11 Centers have received approximately $18 million in grants from the Administration on Aging. With these and other funds, they have developed, and continue to develop as operational centers, a broad range of knowledge and expertise in the field of long-term care. The Centers have always been informed that Federal funding would not continue indefinitely. The nine Centers whose project periods have closed now have the capacity to be self-supporting. The Administration on Aging intends to continue funding the other two Centers, the University of Utah and the University of Texas, until the end of their project periods when they, too, will be fully self-supporting.

AoA has received applications from several of the Long Term Care Gerontology Centers under the Fiscal Year 1986 Coordinated Discretionary Funds Program. AoA is making decisions on these applications currently and will make final awards to successful applicants before the close of the fiscal year.

Mr. Roybal. How does AoA justify the reduced funding for long term care research and cuts in the number and level of funding for the Centers?

Ms. Hardy. In response to the first part of your question, the Long Term Care Gerontology Centers did not function primarily as research institutions. In fact research was only one of five functions for centers. The others included education and training, demonstration of practice models, technical assistance for State and Area Agencies on Aging and information dissemination. In addition, the Title IV program provides support for other long term care research activities that are not conducted through the gerontology centers. Thus, the idea that a reduction in support for Centers is a reduction in long term care research is not accurate.

The second part of your question refers to reductions in numbers and level of support for centers. We have supported 9 of 11 Centers since 1979. These centers successfully reached the end of their project period on September 29, 1985. This ended AoA's five-year financial commitment to these ongoing, fully operational centers. In addition, AoA funded two more Centers at the Universities of Utah and Texas in 1982, is still supporting them, and intends to do so, until the end of their project periods, when they will also be fully operational. The level of their funding for the current fiscal year is $450,000 each, which is not reduced from the previous year.

Mr. Roybal. What information do you have to suggest that there is no need to continue this type of research at the current level?

Ms. Hardy. We do see a need to continue long term care research activities. Under the current Coordinated Discretionary Funds Program Announcement, support is available for long term care research, including projects in family caregiving, hospice, Alzheimer's Disease and many others areas.

Mr. Roybal. What other federal agencies engage in long term care research that might offset the cutback in AoA's research budget?

Ms. Hardy. There are several Federal agencies that engage in long term care research. These include the National Institute on Aging; Health Care Financing Administration; Office of the Assistant Secretary for Planning and Evaluation; National Institute for Handicapped Research; National Institute for Mental Health; Health Resources and Service Administration; and the Veterans Administration.

Mr. Roybal. Have evaluations been conducted on Long Term Care Research Center activities and if so, what are the results?

Ms. Hardy. The AoA evaluated the Long Term Care Gerontology Centers as part of their ongoing monitoring responsibilities. However, there has never been a separate national evaluation or individual project evaluation supported with AoA funds.

Mr. Roybal. Is there any question of the value and quality of research conducted through the Centers?

Ms. Hardy. AoA believes the investment of approximately $18 million in grants to these Centers has supported a broad range of knowledge and expertise in the field of long term care and that these Centers achieved the anticipated results of these grants. Since the 9 Centers are now self supporting, this knowledge and expertise is being applied on an ongoing basis.

Mr. Roybal. Which Long Term Care Research Centers received or will receive funding in FY '86 under the Discretionary Grants Program?

Ms. Hardy. Several Centers applied for support under the FY '86 Coordinated Discretionary Funds Program Announcement. Final decisions regarding funding of these applications will be made prior to the close of the fiscal year.

Mr. Roybal. What types of research is being funded and at what level?

Ms. Hardy. AoA has received a number of long term care related research applications under the FY 1986 Program Announcement. AoA is currently engaged in making decisions about these applications. However, the type and level of support for these projects is dependent on the outcome of the final decisions resulting from the grant review process.

Mr. Roybal. What proportion of discretionary funds is projected to go toward Center activities in FY 1987?

Ms. Hardy. A total of $600,000 has been tentatively earmarked for continuation costs for the two centers located at the University of Texas and the University of Utah in FY 1987. However, all of the centers are eligible to apply, and will be encouraged to apply for funding under the 1987 Coordinated Discretionary Announcement.

Mr. Roybal. What mechanism will you use to fund the Long Term Care Research Centers if the Administration's $11.5 million rescission is not accepted?

Ms. Hardy. AoA has always awarded funding to the Long Term Care Gerontology Centers through a competitive grant mechanism. The two Centers funded in the current fiscal year received non-competing continuation grants and AoA plans to fund successful Center applications under the FY 1986 Program Announcement through a competitive grant process.

Mr. Roybal. To what extent and through what vehicles are the research activities of AoA coordinated with those of other agencies including the National Institutes of Health (and the Institute on Aging in particular), the National Institute of Mental Health, the Health Care Financing Administration, and the Veterans Administration?

Ms. Hardy. AoA is a member of an Interagency Committee on Research on Aging. The National Institutes of Health (Institute on Aging), the National Institute of Mental Health, the Health Care Financing Administration and the Veterans Administration are also members of this committee. This committee meets several times a year and is a primary vehicle for discussing research plans and program announcements.

NATIONAL MINORITY AGING ORGANIZATIONS

Mr. Roybal. Please describe how the Administration on Aging has complied with the provision in the 1986 appropriations bill requiring maintenance of funding for the four originally funded national minority aging organizations? Please specify the level of funding for each organization in FY 1986 and proposed for FY 1987.

Ms. Hardy. Applications from the four national minority aging organizations are currently being reviewed for funding in FY 1986. Decisions on these applications will be made in the near future and we shall inform you at that time of the amount awarded in FY 1986 to each organization.

The level of funding for FY 1987 will depend on the amount available for new projects and the merit of the applications which these organizations submit under the FY 1987 Program Announcement.

ALZHEIMER'S DISEASE

Mr. Roybal. Please describe what Administration on Aging (AoA) funded research is directed in whole or in part to the needs of victims of Alzheimer's disease and their families? How is this research coordinated with that conducted by the other Federal agencies listed above, and with the family stress management efforts of the National Institute of Mental Health in particular?

Ms. Hardy. In FY 1985, the following grants were made for projects to meet the supportive services needs of persons with Alzheimer's disease and their families:

The Alzheimer's Disease and Related Disorders Association of Eastern Massachusetts, "An Alzheimer's Disease Partnership for Community-Based Respite."

Bureau of Maine's Elderly, "A Residential Resource Center Supporting Formal and Informal Caregivers of Alzheimer's Disease."

Connecticut Department on Aging, "A Model Respite Care Program for Alzheimer's Disease Victims and their Families."

Hillhaven Foundation, "Strengthening Community Support for Alzheimer's Disease Victims and Their Families."

New York City Department for the Aging, "Alzheimer's Legal Support Project."

University of Chicago, "Analysis of Behavioral Programming for Alzheimer's and Other Dementia Clients."

University of Kansas College of Health Sciences and Hospital, "Cooperative Approach to Information Dissemination and Development of Support Groups in Rural Areas."

University of South Florida, "Training and Placing In-Home Respite Care Workers for Alzheimer's Patients."

University of Southern California, "Establishing a Baseline Profile of Public Knowledge and Perceptions Concerning Alzheimer's Disease."

University of Southern California, "Telephone Networks for Alzheimer's Caregivers: An Instructional Package for Peer Support."

Tri-City Community Mental Health Center, "Church-Based Counseling Services for Older Persons with Alzheimer's Disease and Their Families."

West Virginia University, "Improving the Capacity of Primary Caregivers to Care for Rural Elderly Persons with Alzheimer's Disease and Other Related Disorders."

During FY 1986, AoA will be considering continuing applications from a number of these projects which have received multi-year awards. Among the applications submitted under the Program Announcement for the FY 1986 Coordinated Discretionary Funds Program are several applications for projects to meet the supportive service needs of persons with Alzheimer's disease and their families. These applications are now under consideration. At this time, decisions regarding support for these applications have not been made.

AoA maintains ongoing contacts with other Federal agencies involved with Alzheimer's disease. The Acting Commissioner on Aging is an ex-officio member of the National Advisory Council on Aging which advises the National Institute on Aging (NIA) regarding funding of applications. AoA has exchanged information with NIA which funds the Alzheimer's disease Centers and with the National Institute of Mental Health which is involved in the Family Stress Management efforts.

LEGAL SERVICES

Mr. Roybal. Please provide information on the funding level and project focus for each of the national legal services support and demonstration projects funded in FY 1986.

Ms. Hardy. The Administration on Aging is currently considering applications from national legal services organizations submitted under the FY 1986 Coordinated Discretionary Funds Program. Decisions will be made in the near future and we shall inform you at that time of the amount awarded in FY 1986 to each national organization.

MEALS AND SUPPORTIVE SERVICES

Mr. Roybal. What will be the impact of the cut in congregate and home-delivered meals and supportive services in FY 1986 and the freeze in these services in FY 1987 (at the 1985 level) have on the numbers of older persons - and low income and minority persons in particular - served?

Ms. Hardy. We believe that, as a result of continuing program management improvements in nutrition services programs, we may be able to avoid any reductions in services and persons served over the previous year. This assumption is clearly supported by the experience of the last several years during which State Agencies have reported serving increased numbers of meals without additional Federal funds. This is particularly important in view of the increasing trend of State Agencies to transfer Title III funds out of their Congregate Nutrition Services allotments into Home Delivered Meals and Supportive Services allotments. We do not anticipate that the proportion of low income and minority older persons will be adversely affected during this time since AoA and State Agencies continue to give priority to these groups, consistent with the provisions of the Older Americans Act. The most recent data shows that 54% of persons receiving congregate meals are low income, and 16% are minorities. For home delivered meals, 65% of the participants are low income, and 17% are minorities.

Mr. Roybal. What will be the impact on the total number of service units provided by these programs in the same years?

Ms. Hardy. We do not anticipate major reductions in services during FY 1986, and believe that most service levels will be maintained at the FY 1985 level. We look to increasing services in FY 1987 as a result of program management improvements which have increased the productivity of service providers over the last several years. For example, we anticipate that the number of meals in FY 1987 will increase by almost 2.3 million as result of these improvements.

Mr. Roybal. How does AoA propose to implement the proposed policy of increasing voluntary contributions by older persons for meal and supportive service programs? Given that such contributions are voluntary, what level of funds are expected to be recovered through such mechanisms in FY 1986 and FY 1987?

Ms. Hardy. Our initiative to increase voluntary contributions was first implemented in FY 1981, when the total amount of such contributions was slightly under $80 million. In FY1985, the total amount of contributions was $140 million, all of which was used to expand services to older persons. We estimate that the total amounts for FY 1986 and FY 1987 will be $148 million and $156.9 million, respectively.

Mr. Roybal. What is the expected annual contribution per elderly recipient?

Ms. Hardy. The average expected annual contribution per meal will be 61¢ in both FY 1986 and FY 1987. We have no data to estimate average contributions for supportive services since there is no standard unit of service in those programs, and our information does not include contributions made for specific supportive services.

Mr. Roybal. What impact will increased out-of-pocket contributions of elderly persons, and low income persons in particular, have on the numbers of persons and income distribution of the population now served by these programs?

Ms. Hardy. Our experience to date indicates that the increasing level of contributions has not adversely affected the participation of low income and minority older persons in Title III programs. Studies conducted by CSR, Inc., and Phoenix Systems, Inc. found that older persons have a positive attitude about making voluntary contributions, when they are asked for such contributions, and that they will give what they can afford in accord with the value they place on the services they are receiving.

Mr. Roybal. It is our understanding that low income and minority persons are being represented less and less among the population of elderly persons served by AoA's Congregate and Home-Delivered Meals and Supportive Services programs. Please provide data on the number of minority (broken down by racial and ethnic categories) and low income persons served and the total number of service units provided to these population groups since 1980.

Ms. Hardy. We do not have data available which shows which minority and income groups receive specific services under Supportive Services programs. The following information (in thousands) shows minority and low income participation in Supportive Services estimated by States for the years requested:

Supportive Services

Group	1980	1981	1982	1983	1984	1985
Low Income	4,900	4,536	4,727	4,704	4,300	4.036
Indian/ Alaskan	47	39	46	40	58	50
Asian/ Pacific Islander	70	150	178	156	133	127
Black	1,300	1,052	1,049	1,075	1,034	1,000
Hispanic	443	350	363	353	371	358

The following shows low income and minority participation (in thousands) in Congregate and Home Delivered Meals programs as estimated by State Agencies:

Congregate Meals:

Group	1980*	1981	1982	1983	1984	1985
Low Income	1,900	1,701	1,729	1,756	1,621	1,577
Indian/ Alaskan	39	32	34	56	26	30
Asian/ Pacific Islander	54	40	52	48	43	46
Black	346	319	282	305	306	286
Hispanic	400	134	124	180	121	114

* Includes total participants for Congregate and Home Delivered Meals.

Home Delivered Meals:

Group	1980	1981	1982	1983	1984	1985
Low Income	*	372	348	370	390	447
Indian/ Alaskan	*	8	8	13	11	8
Asian/ Pacific Islander	*	7	4	5	5	6
Black	*	59	63	71	75	81
Hispanic	*	31	25	26	24	26

*No separate reporting for Home Delivered meals participants existed in FY 1980.

Mr. Roybal. How do you explain the drop in participation of minority and low income elderly in AoA meal and supportive services programs?

Ms. Hardy. In an informal analysis conducted last year by the Administration on Aging Regional Offices, several explanations for the decline in minority participation were found. First, as a result of improved reporting systems at the sub-State level and the rapid expansion of automated record-keeping systems, many States found that previous reports of minority participation (reported on the basis of manual systems and estimates) had been erroneously reported at higher levels than more recent and accurate data supported. Others reported that low income and minority participants previously served under Title III are now being served by State programs which were specifically designed for low income persons, and which include a means test which is not permitted for participation in Title III programs. Others reported declines in participation as a result of increased cost of transportation and site relocation. AoA is continuing to analyze this phenomenon, and to expand its long-term initiative to increase minority participation in Title III programs by sharing with all State Agencies the results of action plans implemented by States in FY 1985 to increase minority participation, and encouraging the adoption of successful service approaches identified through this initiative.

Mr. Roybal. Where are these individuals turning for assistance or are they going without support?

Ms. Hardy. The results of an informal analysis conducted by Administration on Aging Regional Offices indicates that, in some States, low income older persons are being served by State programs each as State-funded programs for home care, specifically designed for low income individuals, and are no longer participating in Title III programs. Given the many factors which impact on the estimates made by States for participation of these groups, however, it is not possible to determine conclusively that the decline in participation is actually occurring, or is the result of other phenomena, such as changes in record keeping systems.

VETERANS HEALTH

Mr. Roybal. The FY '86 Appropriations Bill included a directive that AoA expand a portion of their discretionary grants funds on research projects to demonstrate options for improved collaboration between the Veterans Administration (VA) and non-VA community providers. Please describe the projects, types of research and funding levels of projects meeting this description in '86 and planned for '87. Please also indicate whether any of these projects also received VA funding and the level of that support.

Ms. Hardy. In June 1985, the Administration on Aging (AoA) funded a three year project that demonstrates cooperation between the Veterans Administration (VA) and the AoA-supported programs of the Florida Department of Health and Rehabilitative Services' Aging and Adult Services program. This project will jointly develop with the VA, low cost alternatives for maintaining medically frail veterans and non-veterans in the home rather than in nursing homes. The Florida Department of Health and Rehabilitative Services received $104,017 in AoA resources for FY 1985. This same amount is projected for FY 1986 and 1987. Under a sharing agreement, the VA will provide services to non-veteran Health and Rehabilitative Services' clients valued at $104,017 per year.

Mr. Roybal. To what extent are representatives of the VA health care system represented on state and local boards and commissions on aging?

Ms. Hardy. Our State and Area Agencies on Aging indicate that representatives of the VA health care system do participate on State and local boards and commissions on aging in many areas of the country. However, to date we have not systematically collected data on the level of their involvement.

Mr. Roybal. What, if any, guidelines has AoA issued regarding VA participation or cooperative planning with the aging network at the state and local levels?

Ms. Hardy. To date, AoA has routinely encouraged State and Area Agencies on Aging to reach out to other providers of service within States and communities to help achieve more comprehensive and coordinated systems of service for older Americans. AoA has not issued a separate guideline regarding VA participation or cooperative planning with the aging network at the state and local levels.

Mr. Roybal. What progress has been made during the past year in formalizing and making more regular AoA's interactions with the VA Central Office on issues of consequence to older veterans and non-veterans? Please describe specific projects and planning activities underway between your agencies.

Ms. Hardy. Several meetings have been held between AoA and VA during which a variety of strategies for promoting collaboration between the two agencies were discussed. A meeting between the Acting Commissioner on Aging and the VA Assistant Chief Medical Director for Geriatrics and Extended Care is scheduled for the very near future. The Acting Commissioner on Aging also participates as an ex-officio member of the VA's Geriatrics and Gerontology Advisory Committee. In addition AoA is working with the VA and three other Federal agencies in a project to apply National Aeronautic and Space Administration technologies to the needs of older persons.

Also, AoA now has a senior manager on detail with the Veterans Administration in order to help achieve closer linkages and cooperation between our two programs.

REAUTHORIZATION

Mr. Stokes. The Head Start program must be reauthorized for FY 1987. Are you planning any major changes in the authorizing statute? If so, please describe.

Ms. Hardy. We are requesting changes which will: (1) make Head Start employees ineligible for between-term unemployment benefits; (2) will not require a cost of living increase every year for the American Indian and migrant programs; and (3) will give the Secretary more flexibility in the use of discretionary funds.

GRAMM-RUDMAN REDUCTIONS

Mr. Stokes. The FY 1986 appropriation for Head Start is $1.087 billion. This amount was reduced by $47 million to $1.040 billion under the 1986 Gramm-Rudman reductions. As a result, 1986 Head Start funding will fall below the FY 1985 appropriation of $1.075 billion. How will this reduction affect the program?

Ms. Hardy. In implementing the funding reduction required by Gramm-Rudman we were able to use some discretionary funds and carryover balances from previous years to minimize the impact of the reduction on the Head start programs. Each Head Start program sustained a funding reduction of only 1.4% below the 1985 level. We believe this reduction is of sufficiently small size that most programs will be able to absorb it without a decrease in either quality or enrollment, particularly as the President's FY 1987 budget proposes to restore Head Start to its pre-Gramm-Rudman funding level.

NUMBER OF CHILDREN SERVED

Mr. Stokes. In 1985, approximately 450,000 children were served under Head Start. How many will be served in 1986?

Ms. Hardy. In FY 1985 Head Start served 452,080 children. We anticipate a like number of children will be served in FY 1986.

ENROLLMENTS

Mr. Stokes. How will you maintain enrollments with less money?

Ms. Hardy. In implementing the Gramm-Rudman-Hollings reduction we were able to use some discretionary funds and carryover balances from the previous fiscal year to partially offset the impact on the local program so that each Head Start program was reduced by only 1.4%. As the President's 1987 budget proposes to restore Head Start to its FY 1985 level, we anticipate these cuts will be one-time only and that most of our programs will be able to sustain a one-time reduction of 1.4% without a need to reduce enrollment. We will also work closely with all our programs to assure that they are making maximum use of all their resources and will continue to assist them secure alternative resources to help offset the reduction in Federal dollars.

INSURANCE COST

Mr. Stokes. The Head Start program in Cleveland and many others across the country are facing skyrocketing insurance costs, as insurers become increasingly reluctant to provide liability insurance. How are you addressing this problem?

Ms. Hardy. ACYF has sent an information memorandum to each Head Start grantee and delegate agency that discusses all policies governing insurance coverage for all programs. It also discusses the consequences of having and not having coverage and specifies that each agency should have a clearly defined set of requirements and practices with regard to all insurance. ACYF has informed its regional offices that increased insurance costs are to be dealt with on a case by case basis. We will continue to assess this situation throughout the coming months.

HEAD START POLICY

Mr. Stokes. The budget justification suggests that Head Start projects will be encouraged to enroll Head Start children for just one year, in order to serve more children. This is causing a great deal of concern among Head Start Administrators and Head Start parents. What is the rationale for this policy?

Ms. Hardy. We believe that the value of a Head Start experience is such that as many different low income children should be exposed to Head Start as possible. Children who receive multiple years of service are doing so at the expense of another child who will receive no Head Start. Research literature does not suggest that children benefit significantly more from an additional year of Head Start and we believe multiple years of service should only be for those children who, because of special needs, will benefit significantly from an additional year.

Mr. Stokes. I understand that this policy decision is already being implemented. Is that correct?

Ms. Hardy. We have advised our regional offices to begin working with all Head Start programs as these programs begin their recruitment efforts for the upcoming program year (September, 1986) to assure that multiple years of service are not simply being offered as a matter of course, but are being offered to those children who have special needs and will benefit from additional time in Head Start.

ENROLLMENT

Mr. Stokes. The budget justification indicates that the emphasis will be on serving as many different children as possible, but Head Start projects will be permitted the flexibility to serve some children for more than one year. However, I understand that this is not what Head Start Directors are being told by the Department's regional offices. There is a definite understanding that four-year olds are to be enrolled almost exclusively and that enrollments for more than one year will not be permitted. Please comment.

Ms. Hardy. As indicated in the Head Start Act programs are allowed to provide multiple years of service, and we have not instructed our regional offices to require programs to serve all their children for one year. Rather, we have suggested that we expect the regions to assure that those children which are selected for multiple years of service are chosen in a deliberative manner and for specific reasons. We do not intend to make Head Start available for only four year olds but rather to assure that those children enrolled at an age (three in most cases) which would result in two or more years of service are children who have such special needs that more than one year of Head Start is warranted. We understood there may have been some misunderstanding in the regional offices of our intent and have just recently discussed this matter with them again.

Mr. Stokes. I am concerned that you are putting too much emphasis on numbers --increasing the number of children in Head Start --at the expense of maintaining the quality of the program. Won't limiting a child's time in Head Start to one year deny continuity of service for many needy children?

Ms. Hardy. We have never proposed, nor would we in the future, propose anything to decrease the quality of the Head Start program. We do believe the benefits of a Head Start experience are important enough to try and provide this experience to as many different children as possible. In those instances where children and families have such special needs as to warrant serving them for more than one year we will certainly permit multiple years of enrollment.

Mr. Stokes. What studies or evaluations have been conducted which show that limiting enrollments for one year will not diminish the educational benefits of the Head Start program for disadvantaged children?

Ms. Hardy. There have been no studies published of which we are aware, that indicates limiting enrollment will not diminish the educational benefits for children. We also cannot cite studies showing any significant gains for two-years over one year. Therefore, we are committed to insuring that as many eligible children as possible obtain the demonstrated benefit that a single year of Head Start experience offers.

Mr. Stokes. What proportion of all children enrolled in Head Start are served for more than one year?

Ms. Hardy. In the 1984-1985 program year, 25 percent of Head Start children received more than one year of service.

UNEMPLOYMENT BENEFITS

Mr. Stokes. Why are you requesting appropriations language to classify Head Start personnel as employees of educational institutions for the purposes of eligibility for unemployment compensation? As you know, this would prohibit Head Start employees from collecting unemployment benefits during the months when the Head Start program does not operate.

Ms. Hardy. All Head Start employees should receive similar treatment. It is inequitable that some Head Start program staff collect between-term unemployment benefits while many others are prohibited by law from collecting between-term benefits because their programs are operated out of public school systems. It is also an inappropriate and inefficient use of the unemployment compensation system to supplement staff salaries through unemployment benefits. The unemployment compensation system is intended to assist those who are unemployed and actively seeking work, and many State laws prohibit payments to persons who are not actively seeking work and have jobs to return to. Many Head Start staff know they will be employed by the same program the following year. The use of between-term unemployment compensation benefits is costing Head Start programs $15.6 million in additional payments to State unemployment funds according to a recent study by the Department's Office of Inspector General.

Mr. Stokes. Since many Head Start employees are low income, won't the inability to collect unemployment benefits force these employees to go on welfare?

Ms. Hardy. There are many Head Start programs in which employees do not receive between-term unemployment benefits; some of these employees find summer employment. We think that unemployment benefits are intended for those who are unemployed and actively seeking work and not for those who will be returning to work at the end of the summer.

HEAD START TRAINING AND TECHNICAL ASSISTANCE

Mr. Stokes. How much do you plan to spend on Head Start training and technical assistance in FY 1987, as compared with FY 1986 and FY 1985?

Ms. Hardy. We plan to spend $25 million on training and technical assistance, the same level as FY 1985 and FY 1986.

BILL LANGUAGE

Mr. Stokes. Why are you requesting appropriations language to classify Head Start personnel as employees of educational institutions for the purposes of eligibility for unemployment compensation? As you know, this would prohibit Head Start employees from collecting unemployment benefits during the months when the Head Start program does not operate. Isn't this a matter for the authorizing committees to consider? Why is appropriations language required?

Ms. Hardy. We are proposing this change in the authorizing statute as well. On March 31, the Department sent a legislative proposal to the Congress recommending reauthorization of the Head Start program. The proposed bill includes a provision to make Head Start employees ineligible for unemployment compensation during periodic breaks in employment. However, we wanted to ensure that our budget and legislative proposals are consistent, and therefore also proposed appropriations language.

AVERAGE SALARIES

Mr. Stokes. What were the average salaries for Head Start teachers, teacher aides, and administrators in 1985, 1984 and 1983?

Ms. Hardy. This information is as follows:

Teachers - FY 1983-$8,315, FY 1984-$8,461 and FY 1985-$8,757
Aides - FY 1983-$5,396, FY 1984-$5,490 and FY 1985-$5,682
Directors - FY 1983-$18,747, FY 1984-$19,075 and FY 1985-$19,743

COST OF LIVING INCREASE

Mr. Stokes. When was the last time Head Start employees received a cost of living adjustment?

Ms. Hardy. Head Start employees received a cost of living increase in FY 1985 of 3.5%.(except Mississippi which was 1.75%)

Mr. Stokes. Will Head Start employees receive a pay raise in FY 1986 and/or FY 1987?

Ms. Hardy. A general pay increase for Head Start employees is not planned for 1986 or 1987. Some programs, however, may choose ways to provide increases within their current budget.

ADOPTION OPPORTUNITIES PROGRAM

Mr. Stokes. Last year, Congress approved $5.0 million for the adoption opportunities program. $3.0 million of this amount was to be used for recruitment and outreach to families for the adoption of special needs children, including minority children. Why are you requesting to rescind $3.4 million in adoption opportunities program funds?

Ms. Hardy. In FY 1986, this program received an unneeded increase of $3 million (or 150%) over the 1985 level of $2 million. The reduction of $3.4 million will bring the FY 1986 appropriation level to the President's propose budget for FY 1986 and will be sufficient to fund Demonstration and Service Improvement projects, the National Adoption Exchange, and the Adoption Compact.

Mr. Stokes. How many special needs children are available for adoption nationally?

Ms. Hardy. There will be approximately 36,000 children legally free for adoption in Fiscal Year 1986.

ADOPTIVE HOMES

Mr. Stokes. It is my understanding that there are particular problems with finding adoptive homes for minority children, who are considered special needs children. Black children are adopted at a slower rate and tend to remain in temporary placements for a longer period than do white children. How can these kinds of problems be addressed when you are proposing budget cuts in this areas?

Ms. Hardy. The funds requested will support projects which will continue to assist States to increase the number of adoptive placements of special needs children, including minority children; eliminate unnecessary delays in moving appropriate children into the adoption process; develop models of post-placement and post-adoption services and increase public awareness of children with special needs awaiting adoptive placements. Technical assistance will be provided to States to incorporate successful program models of placing special needs children, including minority children. Models for expediting the decision-making process for children for whom adoption is appropriate, but who are not yet free for adoption will be developed and disseminated. Innovative models of post-placement and post-adoption services to ensure that children remain with their adoptive families will be developed and disseminated. The Special Needs Adoption Initiative will continue to keep the public aware of special needs children awaiting permanent families.

HEAD START APPROPRIATION LANGUAGE

Mr. Early. Would you explain why the language change concerning the classification of Head Start personnel as employees of educational institutions is being requested?

Ms. Hardy. All Head Start employees should receive similar treatment. It is inequitable that some Head Start program staff collect between-term unemployment benefits while many others are prohibited by law from collecting between-term benefits because their programs are operated out of public school systems. It is also an inappropriate and inefficient use of the unemployment compensation system to supplement staff salaries through unemployment benefits. The unemployment compensation system is intended to assist those who are unemployed and actively seeking work, and many State laws prohibit payments to persons who are not actively seeking work and have jobs to return to. Many Head Start staff know they will be employed by the same program the following year. The use of between-term unemployment compensation benefits is costing Head Start programs $15.6 million in additional payments to State unemployment funds according to a recent study by the Department's Office of Inspector General.

Mr. Early. Why do we need to make the change at this time, and in the Appropriations Bill?

Ms. Hardy. Until the use of between-term unemployment benefits is ended, Head Start programs will continue to pay considerable monies into State unemployment funds. We will request this change be implemented in the Authorization Bill.

Mr. Early. Why not make this change through the authorization process? The program has to be reauthorized for FY 87.

Ms. Hardy. We plan to request this change be incorporated in the Authorization Bill as well.

DEPENDENT CARE

Mr. Early. You are proposing to rescind the $4.785 million available, after sequestration, for the Dependent Care Planning and Development program because other sources of funding are available. Provide a comprehensive list of the federal sources of funding which are available to support these activities. For each source indicate the FY86 enacted appropriation level, the post sequestration level, any rescission proposed, and the FY87 request.

Ms. Hardy. With respect to the Office of Human Development Services, the following programs have funds available for information concerning dependent care services and/or school age child care services -

Program	FY 1986 appropriation	Post sequestration	Rescission proposed	FY 1987 request
Social services block grant (title XX)	$2.7b	$2.583	None	$2.7b
Child welfare services (title IV-B)	207m	198 m	N one	200 m
Developmental disabilities program	68 m	65 m	1.08 m	64 m
Older Americans Act	265 m	253.6 m	None	265 m

In addition, the Federal Child Care Tax Credit provides over $4 billion per year in resources to parents needing child care.

Mr. Early. Insert in the record a table displaying what the allocation of the $4.785 million appropriation among the States would be.

DEPENDENT CARE FY 1986

STATE/TERRITORY	ALLOCATION
ALABAMA	69,343
ALASKA	50,000
AMERICAN SAMOA	699
ARIZONA	53,059
ARKANSAS	50,000
CALIFORNIA	445,289
COLORADO	55,231
CONNECTICUT	54,814
DELAWARE	50,000
DIST. OF COLUMBIA	50,000
FLORIDA	190,754
GEORGIA	101,442
GUAM	2,395
HAWAII	50,000
IDAHO	50,000
ILLINOIS	200,051
INDIANA	95,551
IOWA	50,573
KANSAS	50,000
KENTUCKY	64,703
LOUISIANA	77,546
MAINE	50,000
MARYLAND	75,582
MASSACHUSETTS	100,764
MICHIGAN	157,716
MINNESOTA	72,332
MISSISSIPPI	50,000
MISSOURI	87,035
MONTANA	50,000
NEBRASKA	50,000
NEVADA	50,000
NEW HAMPSHIRE	50,000
NEW JERSEY	130,604
NEW MEXICO	50,000
NEW YORK	308,219
NORTH CAROLINA	107,142
NORTH DAKOTA	50,000
NORTHERN MARIANA	379
OHIO	186,861
OKLAHOMA	57,316
OREGON	50,000
PALAU	379
PENNSYLVANIA	206,829
PUERTO RICO	56,673
RHODE ISLAND	50,000
SOUTH CAROLINA	57,351
SOUTH DAKOTA	50,000
TENNESSEE	81,977

TEXAS	277,875
UTAH	50,000
VERMONT	50,000
VIRGIN ISLANDS	2,156
VIRGINIA	97,949
WASHINGTON	75,582
WEST VIRGINIA	50,000
WISCONSIN	82,829
WYOMING	50,000
TOTAL	4,785,000

Mr. Early. How did you arrive at the estimated number of meals to be served in FY 1987?

Ms. Hardy. The number of meals is estimated on the basis of the past experience of State and Area Agencies in operating nutrition services. Our estimate reflects how well States have performed in the past using Title III funds to leverage other State and local resources and to institute management improvements to produce more meals per Title III dollar allotted to them. Over the years, States have been able to produce more meals with their Title III dollars through the effective use of USDA resources, State and local funds, volunteers, contributions from participants, and cost-saving food service management techniques. Thus, in FY 1987, we estimate that, as a result of these program management improvements, States will use $1.65 in Title III dollars to produce a meal, compared to the estimated $1.71 required to produce a meal in FY 1985. This investment factor is used to estimate the number of meals which the budget request will support by dividing $1.65 into the amount available for meals after transfers from Nutrition Services allotments to the Title III Supportive Services allotment.

Mr. Early. Would you explain how an additional 2.263 million meals will be served in FY 1987, as compared to the number which would have been supported by the FY 1986 enacted level, given the amount available for the meals is the same, $367.793 million?

Ms. Hardy. We have projected this increase based on the information reported to us over the past several years indicating that States have made considerable progress in implementing management improvements which have increased the efficiency of nutrition service providers and collecting contributions which have enabled them to produce more meals with Title III funds.

Mr. Early. Specifically, what are some of the management improvement initiatives you are referring to?

Ms. Hardy. These initiatives include continuation of our effort to increase the amount of voluntary contributions made by older persons for the services they receive under Title III, relocation of nutrition sites to more accessible places - particularly for low income and minority older persons, performance based contracting, bulk purchasing, and the use of consolidated contracts for a number of nutrition service providers.

Mr. Early. What major management improvements have been implemented in the last few years?

Ms. Hardy. Among our various nutrition services improvement initiatives, we have given major emphasis to increasing the amount of voluntary contributions made by older persons who are served meals under Title III programs, and to encouraging State Agencies on Aging to expand the use of performance-based contracting in purchasing nutrition services. As a result, the amount of contributions used for nutrition services has increased from $90.7 million in FY 1982 to $121 million in FY 1985. In addition, 37 State Agencies have undertaken initiatives to implement performance-based contracting by their Area Agencies on Aging. This method of contracting emphasizes the use of unit cost reimbursement for services delivered, and has resulted in major per meal cost reductions for many Area Agencies.

EDUCATION AND TRAINING GRANTS

Mr. Early. How many grants were made to colleges and universities for career preparation and personnel training in FY 1985 under the Title IV program? List the grant recipients and the amount of each award.

Ms. Hardy. A total of 23 grants was made to colleges and universities for career preparation and personnel training in FY 1985 under the Title IV program. A listing of the 23 grants and the amount of each award follows.

FY 1985
Grants to Colleges and Universities

1.	University of North Carolina	$ 64,181
2.	Atlanta University	$ 99,938
3.	Gwynedd-Mercy College	$ 121,367
4.	University of Wisconsin-Oshkosh	$ 99,469
5.	University of Texas-Arlington	$ 132,278
6.	Eastern Washington University	$ 95,474
7.	Western Kentucky University	$ 128,412
8.	Morehouse College	$ 100,000
9.	Virginia Commonwealth University	$ 98,102
10.	Kansas State University	$ 106,131
11.	University of the Sacred Heart (P.R.)	$ 60,684
12.	San Jose State University	$ 95,974
13.	Florida International University	$ 75,000
14.	Miami University	$ 68,720
15.	Weber State College	$ 68,860
16.	University of Colorado	$ 77,341
17.	Boston University	$ 64,033
18.	University of Arkansas-Little Rock	$ 75,000
19.	University of Maryland	$ 131,414
20.	North Texas State University	$ 141,216
21.	North Carolina Central University	$ 99,753
22.	University of Guam	$ 99,747
23.	Inter American University (P.R.)	$ 42,385
		$2,145,479

Mr. Early. How many colleges and universities applied for training funds in FY 1985?

Ms. Hardy. A total of 82 colleges and universities applied for training funds by submitting full applications in FY 1985.

Mr. Early. Last year Ms. Hardy told us that no clear documentation exists relative to the professional needs in gerontology. What is the Administration on Aging doing in order to assess the need for adequately trained personnel in the field of gerontology?

Ms. Hardy. The Administration on Aging convened a roundtable workshop in July, 1985, of top professionals in the field of aging. The workshop was called, "Future Directions for Education and Training in the Field of Aging--Implications for the Older Americans Act Program." Some of the recommendations from that workshop were incorporated in the FY 1986 OHDS Coordinated Discretionary Program announcement. For example, Priority Area 4.3, "Aging Manpower Studies," recommended by the workshop, requested applications relating to the need for adequately trained personnel. We expect answers, through those grant awards, to such questions as: "What do existing manpower studies of professional and paraprofessional fields show as the current and future need for personnel training in aging?"

Mr. Early. While the AoA has stated that there is no clear documentation on the need for professionals in the field of gerontology, the AoA also stated that "today one in nine Americans is an older American. By the year 2000, the ratio will be one in six, and by the year 2020, one in four. It is obvious that this trend will have a dramatic impact on all aspects of our society." If this statement is correct, couldn't one assume that the need for adequately trained personnel is rapidly growing?

Ms. Hardy. The field of aging will continue to grow rapidly in the next 20 years, and beyond, as the number of older persons continues to increase. There is a need to ensure that adequate numbers of trained personnel are available to provide direct assistance and to plan and coordinate a variety of services to the elderly in many areas.

In light of the projected significant increase in the number of older persons, AoA is currently supporting 51 grants to colleges and universities to provide a broad range of educational experiences. The major types of training conducted by these institutions of higher learning are career preparation, continuing education, short term training minority training, and graduate fellowship programs. AoA is supporting efforts to train geriatric care specialists, social workers, gerontologists, physicians assistants, nurses, policeman, health educators, osteopathic physicians, mental health specialists, engineering and technology specialists and many other professional specialties to be more sensitive to the special needs of older persons. Since 1965 approximately 258 educational institutions have been funded for purposes of career preparation. In addition, other Federal agencies, such as HHS' Bureau of Health Professionals and the Veterans Administration support geriatric training.

Mr. Early. Shouldn't AoA be involved in assessing the need for these professionals?

Ms. Hardy. The Administration on Aging has an important role to play in designing and supporting appropriate training programs for personnel in aging. The Roundtable Workshop mentioned previously generated recommendations about educating and training in the aging field. These were incorporated in the FY 1986 OHDS Coordinated Discretionary Program Announcement. We are hopeful that projects to be funded in FY 1986 will yield us important statistical manpower data.

Mr. Early. Please explain what types of "non-service" and "low priority" activities would be ineligible for support under the FY 1986 revised funding level for the Title IV program. Use the types of activities supported in previous years as a basis for determining which activities should not receive support.

Ms. Hardy. AoA's program funding priorities for Title IV are contained in the Coordinated Discretionary Program Announcement published in the Federal Register late in the summer of last year. These, priorities, established by AoA, are responsive to the Title IV mandates. Reductions in Title IV budget appropriations would probably result in fewer (and perhaps smaller) grants funded in the various designated priority areas appearing in the announcement.

LONG TERM CARE GERONTOLOGY CENTERS

Mr. Early. Provide a list of the FY 1985 grant awards to the Long Term Care Gerontology Centers.

Ms. Hardy. Provided below is a list of the FY 1985 grant awards to the Long Term Care Gerontology Centers.

Brown University	$ 375,000
Columbia University	$ 375,000
South Florida University	$ 375,000
UCLA/USC	$ 375,000
Washington University	$ 375,000
Temple University	$ 375,000
Milwaukee University	$ 375,000
Kansas University	$ 375,000
University of Arizona	$ 375,000
University of Utah	$ 450,000
University of Texas	$ 450,000
	$4,275,000

Mr. Early. Would the size of the grant awards to the Long Term Care Gerontology Centers be reduced if the post sequestration level of $23.925 million was the final FY 1986 funding level? If so, please indicate how the reductions would be made.

Ms. Hardy. In Fiscal Year 1986 the Administration on Aging funded two Long Term Care Gerontology Centers at $450,000 each. The nine Centers whose project periods have terminated are eligible to receive grants under FY 1986 Coordinated Discretionary Funds Program

Announcement. Several Centers have applied for funding under this program announcement. Final decisions regarding funding under this announcement will be made prior to the close of the fiscal year.

Mr. Early. How would the Centers fare under the FY 1987 request of $12.5 million for Title IV?

Ms. Hardy. The AoA intends to continue funding the two Centers until the end of their project period when it is expected that the Centers will be fully self-supporting. Under the Coordinated Discretionary Funds Program Announcement, the Centers are eligible to receive grants based on the successful review of their applications.

Mr. Early. What do you estimate the size of the Center grants would be under the FY 1987 request?

Ms. Hardy. AoA plans to continue working with the two Long Term Care Gerontology Centers (Universities of Texas and Utah) throughout the five year project period.

The Texas project period ends September 30, 1987 and Utah project period ends July 21, 1987. It is anticipated that the Centers will receive approximately $300,000 for approximately 8 months which would take them to the end of their project period. The other Centers would be eligible to compete under the Coordinated Discretionary Grant Funds Program.

Mr. Early. Specifically, how would the FY 1987 request of $12.5 million, a reduction of $11.4 million from the post sequestration level, impact the Gerontology Centers activities?

Ms. Hardy. AoA intends to fund the two Centers at the Universities of Utah and Texas until the end of their project periods when it is expected that the Centers will be fully operational. Centers are eligible to apply for funding under the Coordinated Discretionary Funds Program Announcement. Those applications that compete successfully will be funded.

ELDER ABUSE

Mr. Dwyer. How is the Administration on Aging working with the states and local area offices on aging to increase awareness of the problem of elder abuse and identify programs to prevent and treat this serious problem?

Ms. Hardy. The Area Agencies on Aging are required by law to identify the public and private nonprofit entities involved in the prevention, identification, and treatment of the abuse, neglect, and exploitation of older individuals, and, based on such identification, determine the extent to which the need for appropriate services for such individuals is unmet. In support of this statutory requirement the Administration on Aging has awarded a grant to the University of Massachusetts (the National Association of State Units on Aging and the American Public Welfare Association are subcontractors) which includes among its objectives a survey of State aging and adult protective services agencies to locate available materials as well as to identify what State programs and procedures are in place to address the problem of elder abuse. Other project activities include publication of a quarterly newsletter (Elder Abuse Report) to disseminate the latest techniques to professionals in the field and to State and Area Agencies on Aging; development of 6-8 training videotapes (Working With Abused Elders), and the establishment of a collection of materials (Special Collection on Elder Abuse) as a resource on elder abuse. We believe the information and knowledge about domestic elder abuse to be shared by this project will help professionals in the field and the State and Area Agencies on Aging to deal more effectively with the problem and ultimately help to prevent it. As more becomes available on elder abuse, we will continue to share information and training materials with the State and Area Agencies on Aging.

Mr. Dwyer. A number of concerns have been raised regarding the participation of low-income elderly under the home-delivered and congregate meals programs, including lack of knowledge about the programs, lack of transportation to congregate meal sites, and some senior citizens are intimidated by the donation request. How is your agency working to address these concerns and ensure that these important services are reaching the elderly poor?

Ms. Hardy. We continue to emphasize the need for State and Area Agencies to target their Title III resources towards those in greatest social and economic need, as required by the Older Americans Act. We have provided specific assistance to State Agencies on methods which could be used by Area Agencies to more effectively target those resources through provisions in contracts with service providers. We have encouraged State and Area Agencies to consider locating service delivery sites in areas of greatest concentration of low income and minority older persons. We have provided estimates of the distribution of low income elderly in Planning and Service Areas to the States, based on Bureau of Census information, for their use in locating these older persons in their States. Many States have included the distribution of low income elderly as a factor in the intrastate funding formulas which they are required to use in allocating Title III funds to Area Agencies. Based on information available for 1984, 86% of the States used low income population distribution as a factor in their intrastate funding formula. This helps to assure that greater proportions of Title III funds are allocated to areas with higher concentrations of low income older persons. We will continue to seek more and better ways to respond to the needs of this population as we work with States to develop coordinated service systems which help the vulnerable elderly population maintain their independence as long as possible.

Mr. Dwyer. I understand that at least one meals program in my district had a waiting list even before the Gramm-Rudman cuts went into effect March 1. How does your agency measure the extent of unmet need as reflected by local waiting lists for the meals programs? Overall, what is your estimate of the percentage of the elderly poor who are being served by the nutrition programs?

Ms. Hardy. We have no information regarding waiting lists for nutrition sites. We believe, however, that the record of serving the low income elderly in the nutrition program clearly indicates the emphasis given to this population by Area Agencies and service providers. States have reported to us during the past three years that over half the participants receiving congregate meals are estimated to have incomes at or below the poverty level, and almost two-thirds of the older persons receiving home delivered meals have similar income levels. Specifically, in FY 1985, States estimated that 1.6 million older persons receiving congregate meals, and over 446,000 older persons receiving home delivered meals were in this income category. This represents 53% and 64% of the total persons receiving services under these programs during that Fiscal Year. The Bureau of Census estimates that, in 1984, approximately 4.5 million persons over age 60 not in institutions had incomes at or below the poverty level. This represents 12% of the total population over age 60 in 1984.

ELDER ABUSE

Mr. Dwyer. To what extent are States using Social Services Block Grant funds for adult protective services?

Ms. Hardy. In FY 1985, forty-two States reported they would be providing protective and emergency services for adults under the social services block grant. No specific data is available on expenditures or estimated numbers of persons served.

ADOPTION OPPORTUNITIES

Mr. Hoyer. Last year Congress added $3 million to the Adoption Opportunities Program, "For the recruitment and outreach of families to adopt special needs children, including minority children and for training of personnel to recruit and work with such families". My numbers suggest that there are at least 36,000 minority children who are awaiting placement. Is this number close to the number you have?

Ms. Hardy. There are an estimated 39,000 children who are awaiting placement in FY'86 of which we estimate 16,500 are minority children.

Mr. Hoyer. You've proposed to rescind $3.3 million dollars bringing the level for FY87 to $1.4 million. How can you do what you say you're going to do on page 174 of your justification which is provide technical assistance to the States to incorporate successful program models of minority or disabled children without the funds added by Congress?

Ms. Hardy. The $1.4 million requested will support projects which will continue to assist States to increase the number of adoptive placements of special needs children, including minority and disabled children; eliminate unnecessary delays in moving appropriate children into the adoption process; develop models of post-placement and post-adoption services and increase public awareness of children with special needs awaiting adoptive placements. Technical assistance will be provided to States to incorporate successful program models of placing special needs children, including minority and disabled children. Models for expediting the decision-making process for children for whom adoption is appropriate, but who are not yet free for adoption will be developed and disseminated. Innovative models of post-placement and post-adoption services to ensure that children remain with their adoptive families will be developed and disseminated. The Special Needs Adoption Initiative will continue to keep the public aware of special needs children awaiting permanent families.

Mr. Hoyer. What was the appropriated level for FY 1985 and FY 1984?

Ms. Hardy. $2,000,000 was appropriated in FY 1985 and 1,912,000 was appropriated in FY 1984.

DEPARTMENT OF HEALTH AND HUAMN SERVICES

Office of Human Development Services

Social Services Block Grant

FY 1987 Budget | Page No.

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Appropriation Estimate

Office of Human Development Services

Social Services Block Grant

For *monthly payments to States for*[1/] carrying out the Social Services Block Grant Act, $2,700,000,000.

Explanation of Langaage Change

1/ Language is added to stipulate that payments will be made to States in twelve monthly allotments.

Social Services Block Grant

Amounts Available for Obligations

	1985 Actual	1986 Revised Estimate	1987 Estimate
Appropriation..........	$2,725,000,000	$2,583,900,000	$2,700,000,000
Offsetting collections from: Federal Funds..	851,000	- - -	- - -
Recovery of prior year obligations..........	10,811,000	- - -	- - -
Unobligated balance, start of year........	72,581,000	67,423,000	67,423,000
Unobligated balance, end of year..........	-67,423,000	-67,423,000	-67,423,000
Total obligations....	$2,741,820,000	$2,583,900,000	$2,700,000,000

Summary of Changes

1986 Budget Authority	$2,700,000,000
1986 Sequester Order	-116,100,000
Total Estimated Budget Authority	2,583,900,000
1987 Request	2,700,000,000
Net Change	+ $116,100,000

	1986 Amount	Change from Base Amount
Increases:		
Program:		
Social Services Block Grant increase to restore program to authorized level	$2,583,900,000	+$116,100,000

Social Services Block Grant
Budget Authority by Activity
(dollars in thousands)

	1985 Actual	1986 Appropriation	1986 Available After Sequestering	Current Estimate	1987 Estimate
Social Services Block Grant............	$2,725,000	$2,700,000	$2,583,900	$2,583,900	$2,700,000
Total Budget Authority...........	$2,725,000	$2,700,000	$2,583,900	$2,583,900	$2,700,000
Obligations	($2,741,820)	($2,700,000)	($2,583,900)	($2,583,900)	($2,700,000)

Budget Authority by Object
(dollars in thousands)

	1985 Actual	1986 Appropriation	1986 Available After Sequestering	Current Estimate	1987 Estimate
Grants, subsidies, and contributions	$2,725,000	$2,700,000	$2,583,900	$2,583,900	$2,700,000
Total Budget Authority..............	$2,725,000	$2,700,000	$2,583,900	$2,583,900	$2,700,000

Authorizing Legislation

	1986 Amount Authorized	1986 Revised Estimate	1987 Amount Authorized	1987 Budget Request 1/
Social Services Block Grant (Social Security Act Title XX amended by P.L. 97-35 and P.L.98-473)	$2,700,000,000	$2,583,900,000	$2,700,000,000	$2,700,000,000
Total Appropriation against definite authorization	$2,700,000,000	$2,583,900,000	$2,700,000,000	$2,700,000,000

1/ States will also be able to fund activities previously funded by Community Services Block Grant for which authority also exists under the Social Services Block Grant.

Social Services Block Grant

Year	Budget Estimate To Congress	House Allowance	Senate Allowance	Appropriation
1976	$2,730,089,000	$2,734,089,000	$2,739,089,000	$2,736,589,000
1977	2,619,206,000	2,625,706,000	2,633,206,000	2,629,706,000
1978	2,646,134,000	2,646,134,000	2,646,134,000	2,646,134,000
1979	2,908,400,000	2,908,400,000	2,980,000,000	2,908,400,000
1980	3,310,100,000	3,271,100,000	3,271,100,000	3,271,100,000
1981	3,351,100,000	2,991,100,000	2,991,100,000	2,991,100,000
1982	1,974,126,000	2,400,000,000	2,400,000,000	2,400,000,000
1983	1,974,126,000	1,974,126,000	2,450,000,000	2,450,000,000
1984	2,500,000,000	2,500,000,000	2,675,000,000	2,675,000,000
1985	2,700,000,000	2,700,000,000	2,700,000,000	2,725,000,000
1986	2,700,000,000	2,700,000,000	2,700,000,000	2,700,000,000
1986 sequester	-116,100,000			
1987	2,700,000,000			

SOCIAL SERVICES BLOCK GRANT

Justification

	1986 Current Estimate	1987 Estimate	Increase or Decrease
Social Services Block Grant	$2,583,900,000	$2,700,000,000	+$116,100,000

General Statement

The Social Services Block Grant is based on two fundamental principles: (1) State and local governments and communities are responsible for determining the needs of their people, establishing priorities, implementing programs directed toward achieving self-sufficiency and reducing the need for social services; and (2) social and economic needs are interrelated and both must be met together in order to: prevent, reduce or eliminate dependency; achieve or maintain self-sufficiency; prevent neglect, abuse or exploitation of children and adults; prevent or reduce inappropriate institutional care when other forms of care are not appropriate.

States will be able to fund activities previously funded by the Community Services Block Grant for which authority also exists under the Social Services Block Grant.

Effects of Proposed Legislation

The President's appropriation request of $2,700,000,000 for the Social Services Block Grant represents current law requirements. No proposed law amounts are included.

Program Accomplishments

Fiscal Year 1986 was the fifth year of State implementation of the Social Services Block Grant. The program affords each State the flexibility to control its own programs. To the extent possible, it does not burden State administration with definitions of permissible and prohibited activities, procedural rules, paperwork, or recordkeeping requirements.

Social Services Block Grant

Authorizing legislation - Title XX of the Social Security Act as amended by P.L. 97-35.

1987 Authorization: $2,700,000,000

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$2,700,000,000	$2,583,900,000	$2,583,900,000	$2,700,000,000	+$116,100,000

Purpose and Method of Operations - This program is designed to encourage each State, as far as practicable under the conditions in the State, to furnish a variety of social services best suited to the needs of individuals residing within the State.

Beginning with Fiscal Year 1982 the Social Services Block Grant replaced Grants to States for Social Services, Child Day Care, and State and local training and retraining.

Social Services Block Grant funds are distributed to Puerto Rico, Guam, the Virgin Islands, and the Commonwealth of the Northern Marianas, based on the same ratio allotted to them in 1981 to the total 1981 appropriation ($2.9 billion). The remainder is distributed to the States and the District of Columbia in proportion to the percentage of their population to the National population.

Funding for this program during the last five years is as follows:

1982	$2,400,000,000
1983	2,450,000,000
1984	2,675,000,000
1985	2,725,000,000
1986	2,583,900,000

Rationale for the Budget Request - The Social Services Block Grant is an entitlement program. The budget request for Fiscal Year 1987 of $2.7 billion is the authorized level for 1987.

In Fiscal Year 1987, to permit maximum coordination at the State and local levels between social and community services activities, the Department proposes that States be allowed to fund activities, previously funded by the Community Services Block Grant, for which authority also exists under the Social Services Block Grant. This will support State and local governments' options to provide needed services due to new and changing social and economic needs within their jurisdiction.

STATE TABLES

SOCIAL SERVICES BLOCK GRANT
STATE ALLOCATIONS

	1985 ACTUAL	1986 ESTIMATE	1987 ESTIMATE
TOTAL 55 STATES	$2,725,000,000	$2,583,900,000	$2,700,000,000
ALABAMA	46,148,632	43,477,511	45,363,931
ALASKA	5,126,326	5,260,341	5,684,703
ARIZONA	33,473,266	32,539,507	34,710,797
ARKANSAS	26,813,724	25,565,966	26,706,735
CALIFORNIA	289,368,191	276,459,437	291,306,927
COLORADO	35,638,495	34,472,327	36,131,973
CONNECTICUT	36,902,520	34,461,329	35,859,107
DELAWARE	7,045,771	6,655,044	6,969,446
DIST. OF COL.	7,385,186	6,841,748	7,083,140
FLORIDA	121,908,230	117,287,153	124,790,603
GEORGIA	65,998,513	62,948,493	66,363,224
GUAM	469,827	445,500	465,517
HAWAII	11,633,715	11,234,531	11,812,813
IDAHO	11,294,301	10,861,149	11,380,776
ILLINOIS	133,986,696	126,138,602	130,873,235
INDIANA	64,032,251	60,170,059	62,508,995
IOWA	33,999,943	31,902,541	33,084,972
KANSAS	28,183,085	26,631,201	27,718,612
KENTUCKY	42,918,345	40,786,930	42,328,299
LOUISIANA	51,052,582	48,737,853	50,730,291
MAINE	13,260,563	12,585,295	13,143,034
MARYLAND	49,917,301	47,266,268	49,445,548
MASSACHUSETTS	67,660,472	63,332,847	65,919,817
MICHIGAN	106,611,182	99,595,228	103,177,362
MINNESOTA	48,372,380	45,509,181	47,319,469
MISSISSIPPI	29,856,749	28,410,284	29,537,717
MISSOURI	57,946,203	54,580,250	56,937,986
MONTANA	9,374,856	8,972,243	9,368,391
NEBRASKA	18,562,448	17,538,163	18,259,266
NEVADA	10,311,171	9,784,916	10,357,529
NEW HAMPSHIRE	11,130,446	10,531,681	11,107,910
NEW JERSEY	87,053,900	82,013,152	85,441,088
NEW MEXICO	15,905,653	15,363,729	16,190,034
NEW YORK	206,679,862	194,017,994	201,636,420
NORTH CAROLINA	70,446,010	66,792,162	70,092,389

NORTH DAKOTA	7,841,640	7,467,718	7,799,413
NO. MARIANA ISLANDS	93,966	89,101	93,103
OHIO	126,297,207	118,011,948	122,243,856
OKLAHOMA	37,183,414	36,218,442	37,496,302
OREGON	31,003,735	29,233,929	30,401,792
PENNSYLVANIA	138,867,238	130,630,236	135,307,304
PUERTO RICO	14,094,827	13,365,000	13,965,517
RHODE ISLAND	11,212,374	10,487,767	10,937,369
SOUTH CAROLINA	37,487,717	35,845,060	37,519,041
SOUTH DAKOTA	8,087,422	7,687,363	8,026,801
TENNESSEE	54,435,021	51,450,403	53,629,489
TEXAS	178,836,190	172,680,076	181,785,436
UTAH	18,187,922	17,779,753	18,782,259
VERMONT	6,039,233	5,765,516	6,025,785
VIRGIN ISLANDS	469,827	445,500	465,517
VIRGINIA	64,266,329	60,949,791	64,077,974
WASHINGTON	49,683,221	47,222,355	49,445,548
WEST VIRGINIA	22,799,274	21,579,508	22,193,081
WISCONSIN	55,769,270	52,175,198	54,186,590
WYOMING	5,875,378	5,644,721	5,809,767

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Human Development Services

Human Development Services

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Appropriation Estimate
Office of Human Development Services
Human Development Services

For carrying out, except as otherwise provided, the Older Americans Act of 1965, the Runaway and Homeless Youth Act, the Native [Americans] *American* Programs Act *of 1974*, the Developmental Disabilities Assistance and Bill of Rights Act, [the Child Abuse Prevention and Treatment Act, Chapter 8-D of Title VI-A of the Omnibus Budget Reconciliation Act of 1981 (pertaining to grants to States for planning and development of dependent care programs), the Family Violence Prevention and Services Act (Title III of Public Law 98-457,] 1/ *the Family Crisis and Protective Services Act of 1986,* 2/ and the Head Start Act, [$2,015,922,000] *$1,979,378,000: Provided, That with regard to projects funded under the Head Start Act, grantees shall be considered as educational institutions within the meaning of section 3304(a)(6)(A) of the Federal Unemployment Training Act:* 3/ *Provided further,* That $76,349,000 shall be the maximum amount available for Indian and migrant programs for fiscal year [1986] *1987. (Department of Health and Human Services Appropriation Act, 1986; additional authorizing legislation to be proposed for $1,132,859,000; legislative action required.)*

Explanation of Language Change

1/ Language deleted for Child Abuse, Family Violence Prevention and Services, and Dependent Care activities for which support is not requested.

2/ Language added to support proposed legislation which would authorize the Family Crisis and Protective Services Act of 1986.

3/ Language added to clarify the status of Head Start grantees.

HUMAN DEVELOPMENT SERVICES

Language Analysis

Language Provision	Explanation
...[the Child Abuse Prevention and Treatment Act,	Language is deleted for Child Abuse State Grants and Discretionary Activities as support for these categorical programs is not requested. Similar activities may be carried out under the proposed Family Crisis and Protective Services Act of 1986.
Chapter 8-D of Title VI-A of the Omnibus Budget Reconciliation Act of 1981, pertaining to grants to States for planning and development of dependent care programs,	Language is deleted for Dependent Care Planning and Development as support for this activity is not requested.
...the Family Violence Prevention and Services Act (Title III of Public Law 98-457),]	Language is deleted for the Family Violence Prevention and Services Act as categorical support for this activity is not requested. Similar activities may be carried out under the proposed Family Crisis and Protective Services Act of 1986.
...the Family Crisis and Protective Service Act of 1986,	Language is added to support proposed legislation which would consolidate Child Abuse State Grants, Child Abuse Discretionary Activities, Child Abuse Challenge Grants and Family Violence Prevention and Services, thus allowing States greater flexibility to target funds to areas most in need.
...That with regard to projects funded under the Head Start Act grantees shall be considered as educational institutions within the meaning of Section 3304(a)(6)(A) of the Federal Unemployment Training Training Act;	Language is added to classify Head Start personnel as employees of educational institutions for purposes of unemployment compensation. Head Start personnel would be uniformly prohibited from collecting between-term benefits.

Human Development Services

Amounts Available for Obligations

	1985 Actual	1986 Revised Estimate	1987 Estimate
Appropriation............	$2,007,154,000	$1,904,257,000	$1,978,378,000
Offsetting collections from: Federal Funds..........	2,013,000	- - -	- - -
Recovery of prior year obligations.......	814,000	- - -	- - -
Unobligated balance, start of year..........	155,000	11,968,000	968,000
Unobligated balance, proposed for rescission	- - -	-5,000,000	- - -
Unobligated balance, end of year............	-11,968,000	-968,000	-968,000
Unobligated balance lapsing................	-1,306,000	-423,000	- - -
Total obligations	$1,996,862,000	$1,909,834,000	$1,978,378,000

SUMMARY OF CHANGES

1986	$1,903,834,200
1987 Request	1,978,378,000
Net Change	+$ 74,543,800

	1986 Base	Change from Base
Increases:		
A. Built-in:		
1. Increase in average salary and benefits due to loss of lower grade personnel	$43,394,000	+$904,900
2. Within-grade increases	43,394,000	+ 432,000
3. Restoration of sequestering for travel	846,000	+ 650,000
4. Increase associated with change in telecommunication requirements cation requirements	1,807,964	+ 150,000
5. Restoration of sequestering for supplies and equipment	375,000	+ 576,000
6. Restoration of sequestering for training activities		+ 110,000
Subtotal, built-in increases		+2,822,900
B. Program:		
1. Restoration of sequestering for Head Start	1,040,098,000	+$34,961,000
2. Restoration of sequestering for Runaway and Homeless Youth	22,231,000	+ 1,019,000
3. Consolidation of four categorical programs into a new Family Crisis and Preventive Services Program	- - -	+30,500,000
4. Restoration of sequestering for Aging Programs	659,976,200	+29,123,800

5. Restoration of sequestering for Native American Financial Assistance Grants	26,126,000	+ 1,174,000
Subtotal, Program increases.........		+96,777,800

Decreases:

A. Built-in:

1. Reduction in FTE ceiling		
amount........................	$43,394,000	- 766,400
FTE............................	1,125	-20
2. Reduction in non-ceiling personnel................	$ 284,000	- 124,500
3. Reduction in rental costs associated with reduced square footage...........	4,535,000	- 204,000
Subtotal, built-in decreases........		-$1,094,900 (-20 FTE)

B. Program:

1. Consolidation of the Child Abuse State Grant Program with other programs........................	11,441,000	-11,441,000
2. Consolidation of the Child Abuse Discretionary Activities with other programs........................	10,043,000	-10,043,000
3. Consolidation of the Family Violence Program with other programs	2,393,000	-2,393,000
4. Elimination of training and technical assistance funds in the Native American Program	85,000	-85,000
Subtotal, Program decreases..........		-23,962,000
Net change..		+$74,543,800

Budget Authority by Activity
(dollars in thousands)

	1985 Actual	1986 Appropriation	1986 Available After Sequestering	1986 Current Estimate	1987 Estimate
1. Administration for Children, Youth and Families					
a. Head Start	$1,075,059 6/	$1,087,059	$1,040,315	$1,040,098	$1,075,059
b. Runaway and Homeless Youth	23,250	23,250	22,250	22,231	23,250
c. Child Abuse Challenge Grants	5,000 8/	- - -	- - -	- - -	- - -
d. Child Abuse State Grants	12,000	12,000	11,441	11,441	- - -
e. Child Abuse Discretionary Activities...............	14,000	14,000	13,441	10,043	- - -
f. Family Violence.............	6,000	2,500	2,393	2,393	- - -
g. Family Crisis and Protective Services Grants	- - -	- - -	- - -	- - -	30,500
h. Dependent Care Planning and Development...........	- - -	5,000	4,785	- - -	- - -
Subtotal	1,135,309	1,143,809	1,094,625	1,086,206	1,128,809
2. Administration on Aging					
a. Supportive Services and Centers	265,000	265,000	253,605	253,605	265,000
b. Nutrition					
(1) Congregate Meals........	336,000	336,000	321,552	321,522	336,000
(2) Home-delivered Meals.... Nutrition Total....	67,900	67,900	64,980	64,980	67,900
c. Grants to Indian Tribes.....	7,500	7,500	7,178	7,178	7,500
d. Research, Training and Discretionary Projects......	25,000	25,000	23,925	12,500	12,500
e. Federal Council on Aging....	200	200	191	191	200
Subtotal	701,600	701,600	671,431	659,976	689,100

	1985 Actual	1986 Appropriation	1986 Available After Sequestering	1986 Current Estimate	1987 Estimate
3. Administration on Developmental Disabilities					
a. Basic State Grants..........	50,250	53,400	51,104	50,250	50,250
b. Protection and Advocacy......	13,750	14,600	13,972	13,750	13,750
c. Special Projects.............	2,700	2,800	2,680	- - -	- - -
d. University Affiliated Facilities..................	9,000	9,600	9,187	9,000	9,000
Subtotal	75,700	80,400	76,943	73,000	73,000
4. Administration for Native Americans					
a. Financial Assistance Grants..	27,300	27,300	26,126	26,126	27,300
b. Training and Technical Assistance	1,000	1,000	957	85	- - -
c. Research, Demonstration, and Evaluation...........	700	700	670	- - -	- - -
Subtotal	29,000	29,000	27,753	26,211	27,300
5. Program Direction	65,545 7/	61,113	58,485	58,441	60,169
(Total FTE)	(1,192)	(1,151)	(1,125)	(1,125)	(1,105)
Total, budget authority.......	$2,007,154	$2,015,922	$1,929,237	$1,903,834	$1,978,378

NOTES

1986 Current Estimate Column

1(a). Reflects withholding of $217,000 for Head Start in accordance with section 515 of P.L. 99-190.

1(b). Reflects withholding of $19,000 for Runaway and Homeless Youth in accordance with section 515 of P.L. 99-190.

1(e). Reflects withholding of $102,000 in accordance with section 515 of P.L. 99-190 and a proposed rescission of $3,296,000 for Child Abuse Discretionary Activities.

1(h). Reflec[illegible] a proposed rescission of $4,785,000 for Dependent Care Planning and Development.

2(b)(1) Reflects withholding of $30,000 for Congregate meals in accordance with section 515 P.L. 99-190.

2(d). Reflects a proposed rescission of $11,425,000 for Research, Training and Discretionary Projects.

3(a). Reflects a proposed rescission of $854,000 for Basic State Grants.

3(b). Reflects a proposed rescission of $222,000 for Protection and Advocacy.

3(c). Reflects a proposed rescission of $2,680,000 for Special Projects.

3(d). Reflects a proposed rescission of $187,000 for University Affiliated Facilities.

4(b). Reflects a proposed rescission of $872,000 for Training and Technical Assistance.

4(c). Reflects withholding of $11,000 in accordance with section 515 of P.L. 99-190, and a proposed rescission of $659,000 for Research, Demonstration and Evaluation.

5. Reflects withholding of $44,000 for Program Direction in accordance with P.L. 99-190.

Other Footnotes

6. Excludes a withholding of $100,000 in accordance with section 515 of P.L. 99-190.

7. Includes $703,000 and 18 positions which were later transferred to Departmental Management, .Department of Health and Human Services.

8. Funds appropriated but unobligated in 1985 are available in 1986.

Budget Authority by Object

	1986 Revised Estimate	1987 Estimate	Increase or Decrease
Full-time equivalent of full-time permanent positions	1,065	1,051	-14
Full-time equivalent of all other positions............	60	54	-6
Total compensable workyears	1,125	1,105	-20
Average ES salary............	$63,452	$63,452	-0-
Average GS grade..............	10.9	11.0	+.1
Average GS salary............	$38,320	$39,100	+$780
Personnel compensation:			
Permanent positions.........	$40,952,000	$41,646,000	+694,000
Positions other than permanent.................	2,299,000	2,133,000	-166,000
Other personnel compensation....................	284,000	159,000	-125,000
Subtotal, personnel compensation..........	43,535,000	43,938,000	+403,000
Personnel benefits...........	4,573,000	4,616,000	+43,000
Travel and transportation of persons.................	866,000	1,525,000	+659,000
Transportation of things......	30,000	30,000	-0-
Rent, communications and utilities...................	2,304,000	2,454,000	+150,000
Rental of space...............	4,535,000	4,331,000	-204,000
Printing and reproduction.....	1,260,000	1,260,000	-0-
Other services...............	1,700,000	1,810,000	+110,000

	1986 Revised Estimate	1987 Estimate	Increase or Decrease
Project contracts...........	9,189,000	9,204,000	+ 15,000
Supplies and materials.........	128,000	244,000	+116,000
Equipment.....................	256,000	716,000	+460,000
Grants, subsidies and contributions...............	1,835,458,200	1,908,250,000	+72,792,000
Total budget authority by object..................	1,903,834,200	1,978,378,000	+74,543,800

Significant Items in House and Senate Appropriation Committee Reports

1986 House Report

Report on Head Start Salaries

1. The Committee directs the Department to submit a comprehensive report, prior to the 1987 hearings, outlining the history of the salary levels for teachers, teacher aides, and administrators beginning with Fiscal Year 1981... including data on how salary levels correspond to the annual inflation rate and to the salaries for comparable positions within the local school districts...accounting for the variations in salary levels due to regional differences.	1. The Department is currently collecting data required to complete this report. The report will be submitted to Congress by March 19.
Continued Support for Head Start Projects Provided One-Time Expansion Funds	
2. The Committee directs Human Development Services to provide these projects with the funds necessary to continue these expanded services and to incorporate these expansions into the projects' base funding allocations. The Committee notes that funds available for program improvement could be used for this purpose.	2. As a result of sequestering, the need to sustain the permanent enrollment levels, and maintain the quality of existing programs, it will not be possible to convert all one-time enrollments in Fiscal Year 1986. However, Fiscal Year 1985 levels of permanent enrollment will be maintained in 1986.
Support for Head Start Bilingual Multicultural Resource Centers	
3. The Committee urges the Department to continue funding the Early Childhood Bilingual Multicultural Resources Centers under the Head Start Act of 1981 at the 1985 levels.	3. While the Department does not plan to fund the specific Resource Centers, the Department will continue to support similar bilingual, multicultural activities at the at the 1985 level of support for the Centers.

Support for Aging Discretionary Activities

4. The Committee expects the Administration on Aging to maintain the following activities under Title IV: rural demonstrations, the presently funded long-term care gerontology centers and training, career preparation training, research, the four orginally funded national miniority aging organizations....and demonstrations to assist victims of Alzheimer's disease and other nuerological disorders of the Alzheimer's type and their families in receiving supportive services.	4. The Department expects to maintain at least some support for all or most of these activities. The amount supporting each of these areas will be determined by the competitive process.

Collaborative Effects with the National Institute of Mental Health

5. The Committee expects the agency to establish a limited number of high quality demonstration projects to explore the supportive services needs of elderly victims of Alzheimer disease and to coordinate these projects with the Family Stress managment efforts of the National Institute of Mental Health. The Committee would expect a report on the progress of these efforts by January 31, 1986.	5. This report is currently being developed and the Department expects to send it to Congress by mid-Spring.

Support for National Legal Services Projects

6. The Committee expects the agency to fund national legal services support and demonstration projects at $1,000,000 (on an annual basis) at a a mimimum for 1986.	6. As in previous years, the amount funded will be determined by the activities contained in proposals selected through the competitive process.

Collaboration With the Veterans Administration	
7. The Committe expects that a portion of Aging discretionary grant funds be expened on research projects to demonstrate options for improved collaboration between Veterans Administration and community service providers on behalf of aging veterans and non-veterans alike.	7. The Department is cooperating with the Veterans Administration.
Program Direction	
8. Total staffing should be maintained at a level of 1,251 FTE to adequately administer the numerous development services program.	8. The amount available after sequestering will support 1,125 FTE in Fiscal Year 1986.
1986 Senate Report	
Child Abuse Cooperative Efforts With the Coast Guard	
1. The Committee encourages continued cooperation with the Coast Guard and other military services in order to reduce the incidence of child and spouse abuse/ neglect among military families.	1. The Office of Human Development Services and the National Center for Child Abuse and Neglect will continue to work with several branches of the military in the prevention and treatment of child abuse and neglect.
Dependent Care Programs	
2. The Committee expects the Secretary to move as rapidly as possible to allocate these funds.	2. The Administration has proposed that these funds be rescinded.
Family Violence Programs	
3. The Committee expects the Department...to implement this new program as expeditiously as possible.	3. The Department is currently developing a notice for publication in the Federal Register in March. Grant awards will be made as soon as possible.

Alzheimer's Projects	
4. The Congress recently adopted new legislation authorizing demonstration projects to explore the supportive service needs of Alzheimer's victims and their families...The Committee strongly urges that these projects be initiated as quickly as possible.	4. The Department expects to make grant awards in this area this year. AoA has supported projects related to Alzheimer's victims and their families for the last three years. Additional awards will be made through the competitive grant process this summer.
Coordination with Volunteer Agencies	
5. Before Fiscal Year 1987 hearings, the Committee expects the Administration on Aging to report on the status of the demonstration projects and its efforts to coordinate activities with national voluntary organization	5. The Department expects to send this report to Congress by March 20.
Support for Aging Discretionary Activities	
6. The Committee directs the Administration on Aging to maintain the following activities under Title IV of the Older American Act: rural demonstration, the present long-term care gerontology centers and training, career preparation training, research, and national minority aging organizations ...at their Fiscal Year 1984 or 1985 levels, whichever is higher.	6. Grant awards for these activities will be made through the competitive grant process this summer.
National Legal Services Supports	
7. The Committee directs the Administration on Aging to fund national legal services support and demonstration projects at $1,000,000 (on an annual basis) at a minimum, for Fiscal Year 1986.	7. As in previous years the amount funded will be determined by the activities contained in proposals selected through the competitive process.

Increased Support for Aging Discretionary Activities	
8. The Committee also urges the Administration on Aging, at the discretion of the Commissioner, to provide increased funding, where appropriate, for the above mentioned activities, especially demonstrations and research concerning the rural and minority elderly.	8. Increased funding of discretionary activities is not appropriate at this time as a result of sequestering. The interests of all the elderly are being addressed through the competitive grant process.
Elder Abuse	
9. The Committee directs the Secretary to provide $500,000 for demonstration projects in five States in order that older Americans protection services programs can be developed and instituted.	9. Until final decisions regarding the competition for discretionary funds are made, it will not be possible to guarantee support for specific kinds of projects or the level of support. However, it is expected that there will be funding for projects concerned with elder abuse, etc.
Rural Demonstration Projects in Kansas	
10. The Committee directs the Department to work with the City of Mahaska, Kansas, to provide needed matching Federal funds of $160,000 and the City of Paola, Kansas, to provide needed matching Federal funds of $50,000 for use in rural demonstration projects... for the establishment of multipurpose county services centers serving large elderly population.	10. The Department is working with appropriate State and Area Agencies concerning the funding of these activities.
Title VII Pilot Project Support	
11. Prior to deciding whether to fund Title VII as a separate program, the Committee recommends funding several pilot projects, not exceeding a total of $750,000, and	11. The Department is considering the Committee's recommendation, and will report to the Congress when final decisions regarding the competition for funds are made. It is expected that projects related to this concern will be funded through the competitive process.

expects the Administration on Aging to report back to the Committee prior to Fiscal Year 1987 hearings any recommendations it may have. The Committee would be especially interested in learning of projects that are funded which are targeted toward minorities, including Native Americans.	
Earlier Decisions Regarding the Disposition of Title IV Funds	
12. The Committee is concerned that the Department waits until late in the fiscal year before making decisions on the allocation of Older Americans Act discretionary resources and urges the Department to make every effort to expedite its planning for the use of these funds so that commitments can be made as early as possible.	12. The Department believes that assuring the most effective use of discretionary funds requires a careful review process. Following Federal Register announcements, applications are received, reviewed, and recommendations are made. While the decision-making process may seem lengthy, the Department believes it is necessary to assure that grant awards of the highest quality are made.
Increases for Developmental Disabilities	
13. The Committee directs that, with the recommended increase of $600,000 for university affiliated facilities and $100,000 for special projects over fiscal 1985 levels, top priority be given to train direct care workers in residential facilities for the developmentally disabled.	13. Sequestering and proposed rescissions will eliminate these increases. However, the Committee may be assured that training direct care workers for residential facilities for the developmentally disabled is a major priority.
Program Direction	
14. The Committee recommendation of $61,113,000 is intended to support 1,192 full-time positions.	14. The amount available for program direction after sequestering will support 1,125 FTE.

Addressing the Employment Needs of American Samoans

15. The Committee has reviewed the Department of Labor's report on the pressing employment needs of American Samoans... the Committee directs OHDS, in conjunction with the Department of Labor, to establish a plan by which these pressing needs are addressed.	15. The Office of Human Development Services will work with the Department of Labor to establish a plan.

Addressing the Needs of Hawaiian Children and Their Families

16. The Committee expects the Office of Human Development Services to assist the Kamehameha Schools/Bishop Estate in its effort to establish a series of parent-child centers throughout the State to address the truly pressing needs of native Hawaiian children and their families...and to make this a high priority.	16. The Office of Human Development Services will provide technical assistance to the Kamehameha Schools/Bishop Estate through the Honolulu Parents and Child Center which has been operating successfully for 18 years.

1986 Conference Report

Long Term Care Gerontology Centers

1. The conferees reaffirm their interest in the long term care gerontology centers in existence in Fiscal Year 1985 and direct the Administration on Aging to continue to fund these Centers.	1. The intended committment for a planning and operational period of four to five years was fulfilled in 1985, with a total investment since 1979 of approximately $18 million. Having generated approximately $24 million of other resources, the nine centers now have the capacity to be self-supporting. A number of these centers have applied for funds through the coordinated discretionary process. The amount funded will be determined by which proposals are selected during the discretionary process.

Authorizing Legislation

	1986 Amount Authorized	1986 Revised Estimate	1987 Amount Authorized	1987 Budget Estimated
Human Development Services: I. Administration for Children Youth & Families				
a) Head Start, (Section 639) of the Head Start Act, as amended)	$1,221,000,000	$1,040,098,000 a/	$- - - b/	$1,075,059,000
b) Runaway and Homeless Youth, (Section 341 (a) of the Runaway and Homeless Youth Act, as amended)	Such sums	22,231,000 c/	Such sums	23,250,000
c) Child Abuse Challenge Grants, Section 404, P.L. 98-473	Such sums	- - - d/	Such sums	- - -
d) Child Abuse Programs (Section 5 of the Child Abuse Prevention and Treatment Act, as amended)	41,500,000	21,484,000 f/	43,100,000	- - - e/
(1) Child Abuse States Grants (Section 5 (A))	Not less than ($9,000,000)	(11,441,000) g/	Not less than ($9,000,000)	- - - e/
(2) Child Abuse Discretionary Activities (Section 5(B))	Not less than ($11,000,000)	(7,602,000) h/	Not less than (11,000,000)	- - - e/ - - - e/
(3) Sexual Abuse Activities (Section 5(C))	($5,000,000)	(2,441,000) h/	(5,000,000)	- - - e/

	1986 Amount Authorized	1986 Revised Estimate	1987 Amount Authorized	1987 Budget Estimated
(4) Services and Treatment for Disabled Infants (Section 5 (D))	(5,000,000)	- - - i/	(5,000,000)	- - - e/
e) Family Violence Protection and Services, (Title III, Section 310 of the Child Abuse Amendments of 1984)	26,000,000	2,393,000 j/	26,000,000	- - - e/
f) Family Crisis and Protective Services Act of 1986, legislation to be proposed)	- - -	- - -	- - -	30,500,000 k/
g) Dependent Care Planning and Development (The Omnibus Budget Reconciliation Act of 1981, Chapter 8, Title VI, Section 670A	20,000,000	- - - l/	- - - m/	- - -
2. Administration on Aging (The Older American Act of 1965, as amended)				
a) Supportive Services and Senior Centers, (Section 303(a))	346,600,000	253,605,000 n/	361,000,000	265,000,000
b) Nutrition:				
(1) Congregate Meals (Section 303(b)(1))	376,500,000	321,522,000 o/	395,000,000	336,000,000
(2) Home-delivered Meals (Section 303(b) (2))	72,100,000	64,980,300 p/	75,600,000	67,900,000
c) Grants to Indian Tribes (Section 698(1))	8,300,000	7,177,500 q/	8,600,000	7,500,000

	1986 Amount Authorized	1986 Revised Estimate	1987 Amount Authorized	1987 Budget Estimated
d) Research, Training and Discretionary Programs (Section 431(a))	29,800,000	12,500,000 r/	31,400,000	12,500,000
e) Federal Council on Aging (Section 204(g))	200,000	191,400 s/	200,000	200,000
f) Evaluation (Section 20[illegible]))	1/10 of 1 percent of appropriation or $300,000, whichever is lower	E/	1/10 of 1 percent of appropriation or $300,000 whichever is lower	E/
3. Administration on Developmental Disabilities (Developmental Disabilities Assistance and Bill of Rights Act, as amended)				
a) State Grants (Section 130)	53,400,000	50,250,000 t/	56,500,000	50,250,000
b) Protection and Advocacy (Section 143)	14,600,000	13,750,000 u/	15,500,000	13,750,000
c) Special Projects (Section 163)	2,800,000	- - - v/	3,100,000	- - -
d) University Affiliated (Section 154)	9,600,000	9,000,000 w/	10,100,000	9,000,000
4. Administration for Native Americans: (The Native Americans Programs Act, as amended, Section 814)				
a) Financial Assistance Grants	Such sums	26,126,000 x/	- - - y/	27,300,000
b) Training and Technical Assistance	Such sums	85,000 z/	- - - y/	- - -
c) Research Demonstration and Evaluation	Such sums	- - - A/	- - - y/	- - -
5. Program Direction	Indefinite	58,441,000 B/	Indefinite	60,169,000

	1986 Amount Authorized	1986 Revised Estimate	1987 Amount Authorized	1987 Budget Estimated
Unfunded Authorizations:				
The Older Americans Act of 1965, as amended Commodity Program (Section 311 (c)(1))	125,900,000	- - - C/	132,000,000	- - - C/
Community Services Employment (Title V, Section 508 (a))	351,400,000	- - -	368,300,000	- - -
Personal Health Education and Training (Title VII, Section 706(a))	Such sums	- - - D/	Such sums	- - - D/
Total Appropriation		$1,903,834,200		$1,978,378,000
Appropriation against definite authorizations	$2,699,500,000	$1,796,951,200	$1,526,400,000	$762,100,000

a/ Reflects withholding of $217,000 in accordance with Section of 515 of P.L. 99-190, and a reduction of $46,744,000 pursuant to P.L. 99-177.

b/ Reauthorizing legislation to be proposed.

c/ Reflects withholding of $19,000 in accordance with Section 515, of P.L. 99-190, and a reduction of $1,000,000 pursuant to P.L. 99-177.

d/ In 1985, $5,000,000 was appropriated with 2 year availability. The President's 1987 budget seeks to rescind $5,000,000 in obligational authority.

e/ Categorical funding is not requested for Child Abuse activities. Similar activities may be carried and under the Family Crisis and Protective Services grants program, legislation to be proposed.

f/ Reflects withholding of $102,000 in accordance with Section 515, P.L. 99-190, to P.L. 99-177, and a proposed rescission of $3,296,000.

g/ Reflects a reduction of $559,000 pursuant to P.L. 99-177.

h/ Reflects reductions of $559,000 pursuant to P.L. 99-177 and a proposed rescission of $3,296,000.

i/ These activities are supported under State Grants for Child Abuse.

j/ Reflects a reduction of $107,000 pursuant to P.L. 99-177.

k/ Legislation to be proposed to consolidate Child Abuse and Family Violence activities.

l/ Reflects a reduction of $215,000 pursuant to P.L. 99-177 and a proposed rescission of $4,785,000.

m/ Legislation expires September 30, 1986.

n/ Reflects a reduction of $11,395,000 pursuant to P.L. 99-177.

o/ Reflects withholding of $30,000 in accordance with Section 515, P.L. 99-190, and a reduction of $14,448,000 pursuant to P.L. 99-177.

p/ Reflects a reduction of $322,000 pursuant to P.L. 99-177.

q/ Reflects a reduction of $1,075,000 pursuant to P.L. 99-177.

r/ Reflects a reduction of $1,075,000 pursuant to P.L. 99-177 and a proposed rescission of $11,425,000.

s/ Reflects a reduction of $9,000 pursuant to P.L. 99-177.

t/ Reflects a reduction of $2,296,000 pursuant to P.L. 99-177 and a proposed rescission of $854,000.

u/ Reflects a reduction of $628,000 pursuant to P.L. 99-177 and a proposed rescission of $222,000.

v. Reflects a reduction of $120,000 pursuant to P.L. 99-177 and a proposed rescission of $2,680,000.

w/ Reflects a reduction of $413,000 and a proposed rescission of $187,000.

x/ Reflects a reduction of $1,174,000 pursuant to P.L. 99-177.

y/ Reauthorizing legislation to be proposed.

z/ Reflects a reduction of $43,000 pursuant to P.L. 99-177 and a proposed rescission of $872,000.

A/ Reflects withholding of $11,000 in accordance with Section 515, P.L. 99-190, a reduction of $30,000 pursuant to P.L. 99-177, and a proposed rescission of $659,000.

B/ Reflects withholding of $44,000 in accordance with Section 515, P.L. 99-190, and a reduction of $2,628,000 pursuant to P.L. 99-177.

C/ Funds requested by and appropriated to the Department of Labor.

D/ Similar activities are carried out by the Public Health Services.

E/ Specific amounts to be allocated for evaluation have not been determined.

HUMAN DEVELOPMENT SERVICES

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1978	1,366,718,000	1,299,148,325	1,631,018,000	1,616,744,000
1979	1,688,709,000	1,711,209,000	1,709,209,000	1,711,209,000
1980	1,811,949,000	1,916,967,000	1,073,088,000	1,943,231,000
1981	2,168,913,000	2,175,083,000	1/	2,194,231,000
1982	1,846,468,000	2,260,588,000	2,261,084,000	2,204,001,000 5/
1983	2,415,725,000 2/	1,762,211,000	1,754,194,000	1,774,978,000 5/
1983 Supplemental	1,414,000 3/	---	---	---
1984	2,193,446,000 4/	1,857,156,000 6/	1,855,581,000 6/	1,856,368,000 6/
1985	2,022,149,000 4/	1,996,154,000	2,003,704,000	1,996,154,000 7/
1985 Supplemental	---	6,000,0000	16,000,000	11,000,000
1986	1,969,167,000	2,003,722,000	2,009,422,000	2,015,922,000
1986 Sequestering	-86,685,200			
1986 Rescission	-24,980,000			
1987	1,978,378,000			

1/ The Senate did not act.

2/ Includes funds for the Rehabilitation Services Administration, the American Printing House for the Blind, the National Technical Institute for the Deaf, and Gallaudet College. Prior to 1983, amounts exclude funds for all these activities.

3/ Requested pay raise transfer of $1,414,000.

4/ Includes funds for Child Care Feeding program, as part of Head Start; and funds for the USDA Commodity/Cash-in-lieu-of program requested to be transtransferred to the Administration on Aging. Because this table is non-comparable, comparable amounts for all of these activities are not included prior to 1984.

5/ Reflects a transfer of one position and related costs from the Office of Human Development Services to Departmental Management. Amounts transferred are $116,000 in 1982 and $36,000 in 1983.

6/ Includes $6,720,000 for Child Abuse State Grants, made available in the second continuing resolution, P.L. 98-151.

7/ Includes $703,000 and 18 positions proposed for transfer to the Office of the Secretary.

HUMAN DEVELOPMENT SERVICES

Justification

Account Summary

	1986 Current Estimate	1987 Estimate	Increase or Decrease
1. Administration for Children Youth and Families...	$1,086,206,000	$1,128,809,000	+$42,603,000
2. Administration on Aging.............	659,976,200	689,100,000	+29,123,800
3. Administration for Developmental Disabilities.........	73,000,000	73,000,000	- - -
4. Administration for Native Americans.....	26,211,000	27,300,000	+1,089,000
5. Program Direction............	58,441,000	60,169,000	+1,728,000
Total, Budget Authority......	$1,903,834,200 1/	$1,978,378,000	+$74,543,800
Rental of Space	(4,535,000)	(4,331,000)	(-204,000)
Positions......	1,125	1,105	-20

1/ Reflects sequestering in the amount of $86,685,200, Section 515 withholdings of $423,000; and proposed rescission of $24,980,000 as contained in the President's Budget.

General Statement

Decisions affecting the development of the Fiscal Year 1987 budget for the Human Development Services appropriation were based on the following Administration policies:

- To maintain all service programs at their Fiscal Year 1986 President's Budget levels;
- To encourage increased support from State and local governments and from the private sector;
- To rely on an increased number of volunteers.

The Fiscal Year 1987 budget maintains funding for Head Start, Runaway and Homeless Youth, and Aging service programs at the level requested for these activities in the Fiscal Year 1986 President's Budget. Categorical support for Child Abuse State Grants, Child Abuse Discretionary Activities and Family Violence Prevention and Services and Child Abuse Challenge Grants is not requested. Instead, legislation will be proposed to create a Family Crisis and Protective Services grants program under which activities similar to those supported under the four categorical programs could be continued. Amounts requested for Developmental Disabilities programs and Native American programs are the same as those requested in the Fiscal Year 1986 President's Budget. The request for Program Direction will support 1,105 FTE, a reduction of 20 FTE from the 1986 level.

Effects of Proposed Legislation

The appropriations request of $1,978,378,000 includes current law adjusted by an increase assuming congressional action on proposed legislation as follows:

Current law appropriation request	$ 845,519,000
Impact of legislation changes:	
-- Simple reauthorization of the Head Start Act	+1,075,059,000
-- Establish new authorization for Family Crisis and Protective Services Grants	+30,500,000
-- Simple reauthorization of the Native American Program Act	+27,300,000
-- Subtotal, legislative changes	+1,132,859,000
Total, appropriation request in President' Budget	$1,978,378,000

Program Accomplishments

Over the past five years, funds appropriated through the Human Development Services appropriation have supported programs which:

- Reduce dependence and enhance self-sufficiency;
- Develop, strengthen, and improve family and community support systems;
- Emphasize improved program quality;
- Improve managerial systems.

Special accomplishments are as follows:

Head Start - Since 1982 over 2 million children and their families have benefitted from comprehensive developmental services. In 1986, over 448,000 children were served on a permanent basis. Recent emphasis has been on serving children of families who have not had children in Head Start before, improving staff capabilities through training, and expanding services to additional eligible children.

Aging Programs - Over the past 5 years, on an annual basis, over 9 million elderly persons have received social services to reduce dependence; up to 220.6 million meals have been served to almost 4 million elderly people; 135 tribal organizations have served over 24,000 older Indians; over 32,000 students have been trained in the field of gerontology; and nearly 241,500 State and area agency personnel have received in-service training. Emphasis has been on increasing voluntary contributions and management efficiency to maintain or increase levels of service without additional Federal support. Every effort has been made to assure that comprehensive coordinated community based systems are available to enable the vulnerable elderly to live independently.

Developmental Disabilities Programs - Progress has been made in advocating on the behalf of the developmentally disabled for rights and access to services, education, employment, residences, and transportation.

Native American Programs - Community-based social and economic development strategies have been implemented to assist Native Americans to build stable local economies and reduce welfare dependency.

ADMINISTRATION FOR CHILDREN, YOUTH AND FAMILIES

	1986 Revised Estimate	1987 Estimate	Increase or Decrease
Head Start.............	$1,040,098,000	$1,075,059,000	+$34,961,000
Runaway and Homeless Youth.......	22,231,000	23,250,000	+1,019,000
Child Abuse Challenge Grants 1/...	- - -	- - -	- - -
Child Abuse State Grants.........	11,484,000	- - -	-11,484,000
Child Abuse Discretionary Activities...........	10,000,000	- - -	-10,000,000
Family Violence........	2,393,000	- - -	-2,292,000
Family Crisis and Protective Services Grants......	- - -	30,500,000	+30,500,000
Dependent Care Planning and Develoment	- - -	- - -	- - - -
Total, Budget Authority............	$1,086,206,000	$1,128,809,000	+$42,603,000

1/ Funds appropriated but unobligated in 1985 are available in 1986.

General Statement

The Administration for Children, Youth and Families supports programs for children, youth and their families. Primary emphasis is on the developmental needs of preschool children from low-income families and developing better services for vulnerable children and youth, particularly children who are abused or neglected and youth who are runaways or homeless. The budget level requested for Head Start will maintain enrollment in this comprehensive child development program at approximately 448,250 children. This program provides educational, nutritional, health and parent involvement services to low-income children and their families. Child Abuse and Neglect State Grants, Challenge Grants and Discretionary Activities and Family Violence grants will be consolidated into a Family Crisis and Protective Services Grant Program. This new program will replace four small narrowly-constructed categorical abuse programs with a program which would provide the Secretary and State and local governments flexibility to address the problems of families in crisis. A level of $23,250,000 is requested for Runaway and Homeless Youth facilities and activities, the same level as in 1985.

Effects of Proposed Legislation

The President's budget request of $1,128,809,000 for this account includes current law adjusted by legislative proposals assuming Congressional action as follows:

Current law appropriation request...............	$ 23,250,000
Impact of legislative changes:	
-- Reauthorization of the Head Start Act......	+1,075,059,000
-- Establishment of new authorization for a Family Crisis and Protective Services Grants Program............................	+ 30,500,000
Subtotal, legislative changes..............	+1,105,559,000
Total, appropriation request in President's Budget	$1,128,809,000

Program Accomplishments

Over the past five years, funds appropriated through the Human Development Services appropriation have supported programs which:

- Develop, strengthen, and improve family and community support systems;
- Emphasize improved program quality;
- Reduce dependence and enhance self-sufficiency;
- Improve managerial systems.

Head Start

Authorizing legislation - The Head Start Act, Section 639 of the Omnibus Reconciliation Act of 1981, as amended.

1987 Authorization: Authorization expires in 1986. Reauthorization to be submitted.

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$1,087,059,000	$1,040,315,000	$1,040,098,000	$1,075,059,000	+$34,961,000

Purpose and Method of Operations - Head Start provides comprehensive development services for children and their families. Intended for preschoolers from low-income families, the program seeks to foster the development of children and enable them to deal more effectively with both their present environment and later responsibilities in school and community life. Head Start programs emphasize cognitive and language development, socio-emotional development, physical and mental health, and parent involvement to enable each child to develop and function at his or her highest potential. At least ten percent of enrollment opportunities in each State are made available to handicapped children.

Grants to carry out Head Start programs are awarded to public and private non-profit agencies. The Head Start Act includes a formula which determines minimum State allocations. The two factors in the formula are the relative number of poor children and the number of recipients of Aid to Families with Dependent Children in each State as compared to all States. In addition, grants, cooperative agreements and contracts are awarded in the areas of research, demonstration, technical assistance and evaluation.

Head Start children receive comprehensive health services, including immunizations and physical and dental exams and treatment, and hot meals to help meet daily nutritional requirements. The Head Start program also emphasizes significant involvement of parents in their children's early childhood development.

During the past five years, Head Start has provided physical, dental, mental health, educational, nutritional, and social services to more than 2 million preschool children and their families throughout the nation.

Head Start services are provided through a nationwide network of over 1,300 grantees serving more than 2,000 communities. The program employs approximately 82,000 persons in these communities, 31 percent of whom are parents of current or former Head Start children.

Funding for the Head Start program during the last five years has been as follows:

1982	$ 911,700,000
1983	$ 912,000,000
1984	$ 995,750,000
1985	$1,075,059,000
1986	$1,040,098,000

Rationale for the Budget Request - The Fiscal Year 1987 budget level of $1,075,059,000 is the same level as the 1985 appropriation. This level will provide comprehensive child development services to 448,250 children, the same level as in 1985 and 1986, while maintaining current levels of program quality. The following table provides information regarding children in Head Start.

	1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987 Request
Number of Children	448,250	448,250	448,250	448,250
Average Cost per Child	2,362	2,261	2,261	2,336
Number of Classrooms	24,123	24,123	24,123	24,123

Program Data:

(in thousands)

Activity	1985 Actual	1986 Appro-priation	1986 Available After Sequestering	1986 Revised Estimate	1987 Estimate
Local Head Start Projects					
States and Territories	$ 970,652	$ 982,652	$ 940,399	$ 940,399	$ 970,652
Indians and Migrants	76,307	76,307	73,025	73,025	76,307
Subtotal	1,046,959	1,058,959	1,013,424	1,013,424	1,046,959
Support Activities					
T/TA	25,000	25,000	25,000	25,000	25,000
RD&E	1,300	1,300	793	693	1,300
Special Handicapped	1,800	1,800	1,098	981	1,800
Subtotal	28,100	28,100	26,891	26,674	28,100
Total	$1,075,059	$1,087,059	$1,040,315	$1,040,098	$1,075,059

The Fiscal Year 1987 request for Head Start, an increase of $34,961,000, returns the level of support for this program to the Fiscal Year 1985 appropriated level of $1,075,059,000 which was reduced in 1986 as a result of the Deficit Reduction Act. This request will maintain Head Start enrollment at the 1985 and 1986 level of 448,250 children. Head Start programs will be encouraged to continue to identify cost savings from within their current budgets which can be used to provide cost-of-living increases to staff. A management initiative to analyze costs and improve the efficiency of programs which became operational in Fiscal Year 1983, will continue to produce savings in Fiscal Year 1987 and can be used for this purpose.

In Fiscal Year 1987, there will be continued emphasis on enrolling children with handicaps, including those with severe or multiple handicaps. At least ten percent of Head Start enrollment, or 44,825 enrollees, will be handicapped children.

In addition, in 1987 emphasis will also be placed on encouraging programs not to provide multiple years of service as a matter of course, as it is important to provide as many different children as possible with a Head Start experience. However, there are children who should be served for more than one year and that is permitted. Emphasis will also be placed on serving families who have not had children in Head Start before, and on increasing the days of operation in some Head Start projects.

This request includes appropriation language that would classify Head Start personnel as employees of educational institutions for purposes of eligibility for unemployment compensation. Head Start personnel would be uniformly prohibited from routinely collecting between-term benefits.

It is estimated that the following numbers of staff and volunteers will participate in Head Start projects in Fiscal Years 1986 and 1987.

	Fiscal Year 1986	Fiscal Year 1987
Number of Staff	82,000	82,000
Number of Volunteers	545,300	545,300

In addition to local program operations, Head Start will continue a number of training, research, demonstration and evaluation initiatives in Fiscal Year 1987.

- o Training and Technical Assistance ($25,000,000): A variety of training and technical assistance activities will assist local projects in meeting program performance standards in component areas such as education, social services, parent involvement, and health services. Services will be delivered in part through a network of training and technical assistance providers representative of and accountable to local Head Start projects and in part through direct funding of local programs to allow them to prescribe the training and technical assistance most relevant to each program. In addition, Head Start will explore ways to further involve State governments in continuing the gains made by Head Start children as they enter public school systems. Training and technical assistance providers will aid local projects in the identification and correction of both programmatic and management deficiencies and on continuing the Child Development Associate activities aimed at improving the competence of classroom staff. Assistance in meeting the special needs of handicapped children will also be provided to local projects.

- Research, Demonstration and Evaluation: ($1,300,000) A number of demonstration and evaluation projects will be funded in Fiscal Year 1987. These projects are intended to develop and test strategies for improving the efficiency and effectiveness of Head Start services.

- Special Handicapped Projects: ($1,800,000) In order to assure that local projects are equipped to deal with the special developmental needs of handicapped children, a network of Resource Access Projects (RAPs) will continue to provide special training and technical assistance to the local grantees.

Runaway and Homeless Youth Program

Authorizing legislation - Title III of the Juvenile Justice and Delinquency Prevention Act of 1974, as amended.

1987 Authorization: Such sums as may be necessary

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$23,250,000	$22,250,000	$22,231,000 a/	$23,250,000	+$1,019,000

a/ Includes $19,000 withheld pursuant to Section 515, P.L. 99-190.

Purpose and Method of Operations - This program addresses the crisis needs of runaway and homeless youth and their families through support to local and State governments and private agencies. Grants are used to develop or strengthen community-based facilities which are outside the law enforcement structure and Juvenile Justice system. The Runaway and Homeless Youth Act mandates that funds for this program be allocated to the State jurisdictions on the basis of the State youth population under 18 years of age in proportion to the national total.

There are an estimated 733,000 to 1.3 million youth who run away or are pushed out of their homes every year. Approximately 35 percent of all youth served by the centers were homeless either through mutual agreement with their respective families or because they had been pushed out by a parent or legal guardian.

Over the past five years Federal assistance for the center grants portion of this program, which has established or strengthened temporary shelters for runaway and homeless youth, has totaled over $75 million. Approximately 300,000 young persons received needed services. An additional 1,000,000 youth and families have been served through the National Toll-Free Communications System (hotline) during the past five years at an average cost of $330,000 per year. Recent data also show that 56 percent of the eligible parents received services from the runaway and homeless youth programs.

In addition to the funds which directly support temporary shelters for runaway and homeless youth, approximately fourteen percent of the funds over the past five years have been used to fund projects which support and strengthen the work of the shelters. These include the national toll-free runaway youth hotlines; training and technical assistance activities; and research and demonstration projects on a wide variety of topics including teenage prostitution, chronic runaways, the special situation of older adolescents, and methods to improve program administration, outreach, and prevention and family reunification. Also funded, since Fiscal Year 1984, are grants to coordinate activities among local shelters. These networking grants support mutual problem-solving cooperation among shelters.

Funding levels over the past five years has been as follows:

1982	$10,514,000
1983	$21,500,000
1984	$23,250,000
1985	$23,250,000
1986	$22,231,000

Rationale for Budget Request - Funding for Fiscal Year 1987 is requested at $23,250,000, the same level as in 1985, and the 1986 President's Budget request. This level will provide support for at least 285 runaway and homeless youth projects, the national toll-free runaway youth hotline, and various research and demonstration projects.

The thrust of the Federal effort provides resources: (1) to insure that centers are available in every State for runaway and homeless youth; and (2) to use these resources to support the best approaches within each State, as determined through centers' competition for funds.

An estimated $2.9 million will be expended on research and demonstration projects to support and improve the operations of the shelters. Approximately $650,000 will be devoted to the funding of coordinated networks of local shelters, to provide technical assistance, to disseminate the results of research and demonstration projects and to help them cooperate in seeking solutions to the local problems of runaway and homeless youth and their families. An estimated $350,000 will support the National Toll-Free Communications System.

Fiscal Year 1985

	Number Served	Amount
Runaway or Homeless Youth Centers (273 centers)	71,000	$18,129,000
National Toll-Free Communications System	260,000	350,000
Coordinated Networking Grants		718,000
Cross-Program Model Demonstration Projects		3,817,000
Other		236,000
		$23,250,000

Fiscal Year 1986 Appropriation

Runaways or Homless Youth Centers (at least 275 centers)	80,000	$18,300,000
National Toll-Free Communications System	260,000	350,000
Coordinated Networking Grants		800,000
Cross-Program Model Demonstration Proejcts		3,465,000
Other		335,000
		$23,250,000

Fiscal Year 1986 After Sequestering

	Number Served	Amount
Runaway or Homeless Youth Centers (at least 275 centers)	80,000	$18,300,000
National Toll-Free Communications System	260,000	350,000
Coordinated Networking Grants		650,000
Cross-Program Model Demonstration Projects		2,615,000
Other		335,000
		$22,250,000

Fiscal Year 1986 Revised Estimate

Runaway or Homeless Youth Centers (at least 275 centers)	80,000	$18,300,000
National Toll-Free Communications System	260,000	350,000
Coordinated Networking Grants		650,000
Cross-Program Model Demonstration Proejcts		2,596,000
Other		335,000
		$22,231,000

Fiscal Year 1987 Estimate

	Number Served	Amount
Runaway or Homeless Youth Centers (at least 285 centers)	86,000	19,000,000
National Toll-Free Communications System	260,000	350,000
Coordinated Networking Grants		650,000
Cross-Program Model Demonstration Projects		2,915,000
Other		335,000
		$23,250,000

Child Abuse Challenge Grants

Authorizing legislation - Section 404, P.L. 98-473.

1987 Authorization: Such sums as may be necessary.

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
- - - a/	- - -	- - -	- - -	- - -

a/ No funds were appropriated in 1986. The $5 million appropriated in 1985 was unobligated and is available through two-year availability in 1986. A rescission is proposed.

Purpose and Method of Operations - The purpose of this program is to encourage States to establish and maintain trust funds or other funding mechanisms including direct State appropriations to support child abuse and neglect prevention activities.

Each State must make application for the funds to the Secretary at such time, in such manner, and containing such information as the Secretary deems essential but in any case must include: an agency to administer the funds, either the trust fund advisory board or, if lacking, the State liaison agency to the National Center on Child Abuse and Neglect; provision for keeping records and making such reasonable reports as the Secretary deems essential; and assurances that the funds will not be used to match other Federal funding.

Federal "matching" grants are to be the lesser of 25 percent of the total amount made available by the State in the previous year; or an amount equal to 50 cents times the number of children residing in such State according to the most current data available.

There are approximately 30 States who already have instituted Children's Trust Funds.

Funding:

1985..............................	$5,000,000*
1986..............................	-0-

*proposed for rescission

Rationale for the Budget Request - In 1987 a Family Crisis and Preventive Services Grant program is proposed. This program will consolidate several small narrowly-constructed categorical programs. The proposal would consolidate the Child Abuse Challenge Grant program with the Child Abuse State Grant Program, the Child Abuse Discretionary Program and the Family Violence Program. Under this consolidated program, States could use Federal funds to provide a wide range of activities for the prevention and treatment for abuse and neglect of children, spouses, the elderly and others in crisis.

Child Abuse State Grants

Authorizing legislation - Section 5 of the Child Abuse Prevention and Treatment Act, as amended.

1987 Authorization: $43,000,000 - This amount is for the entire Child Abuse Program.

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$12,000,000	$11,441,000	$11,441,000	- - -	-$11,441,000

Purpose and Method of Operations - The Child Abuse and Neglect program assists States to improve and increase activities for the prevention and treatment of child abuse and neglect through State grants. These grants to improve services are made directly to eligible States according to a base amount plus an additional amount based on each State's population under the age of 18. Over the past five years, this program has served as a catalyst to assist States to initiate 24-hour capability to respond to reports of child abuse and neglect; to support pilot projects for responding to child sexual abuse cases; to establish parent aide and self-help programs; to recruit and train volunteers; and to develop Statewide crisis hotlines and public awareness campaigns.

The reauthorizing legislation also provides an earmark beginning in Fiscal Year 1985 for supporting State efforts to put into place programs for responding to reports of medical neglect, including instances of withholding medically indicated treatment from disabled infants with life threatening conditions.

Funding levels for the past five fiscal years were as follows:

1982	$ 6,720,000
1983	$ 6,720,000
1984	$ 6,720,000
1985	$12,000,000
1986	$11,441,000

Rationale for the Budget Request - In 1987, a Family Crisis and Protective Services Grant Program is proposed. This program will consolidate several small, narrowly-constructed categorical programs. The proposal would consolidate the Child Abuse State Grant Program with the Child Abuse Discretionary Program, the Child Abuse Challenge Grant Program and the Family Violence Program. Under this consolidated program States would have greater flexibility in addressing the related issues of child abuse and family violence.

Child Abuse Discretionary Activities

Authorizing legislation - Section 5 of the Child Abuse Prevention and Treatment Act, as amended.

1987 Authorization: $43,000,000 - This amount is for the entire Child Abuse Program

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$14,000,000	$13,441,000	$10,043,000 a/	- - -	-$10,043,000

a/ Includes $102,000 withheld pursuant to Section 515 of P.L. 99-190.

Purpose and Method of Operation - The purpose of the Child Abuse Discretionary program is to improve and increase national, State, community and family activities for the prevention, identification, and treatment of child abuse and neglect through research, demonstration, service improvement, information dissemination and technical assistance.

The Child Abuse Prevention and Treatment Act provides that the National Center on Child Abuse and Neglect shall award grants or contracts to support demonstration or service improvement programs to prevent, identify and treat child abuse and neglect; compile, analyze, publish and disseminate an annual summary of research on child abuse and neglect; develop and maintain an information clearinghouse; compile, publish, and disseminate training materials; technical assistance directly or through information dissemination; and fund programs or projects previously funded by the Department of Health and Human Services which are of national or regional scope and have demonstrated their effectiveness.

Research, demonstration and service improvement grants are awarded competitively to public and private nonprofit agencies, including State and local government agencies, universities and voluntary organizations. Grants and contracts are awarded on the basis of priority statements published in the Federal Register for grants and in the Commerce Business Daily for contracts. Contracts may be awarded to nonprofit or proprietary organizations. Projects supported by grants and contracts may run up to three years, depending upon the availability of funds.

Funding for the past five years was as follows:

1982	$ 9,479,000
1983	$ 9,479,000
1984	$ 9,479,000
1985	$13,980,000
1986	$10,043,000

Rationale for the Budget Request- In 1987 a Family Crisis and Protective Services Grant Program is proposed. This program will consolidate several small, narrowly-constructed categorical programs which address problems related to the abuse and neglect of individuals. The proposal would consolidate the Child Abuse Discretionary Program with the Child Abuse State Grant Program, the Child Abuse Challenge Grant Program and the Family Violence Program, giving States greater flexibility in addressing the related issues of child abuse and family violence. The proposed legislation will include an earmark of $6,000,000 for discretionary activities.

Program Data:

Activity	1985 Actual	1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987 Estimate
Research, Demonstration and Service Improvement	$12,579	$13,326	$12,767	$9,394	- - -
Clearinghouse	617	498	493	473	- - -
Incidence	804	176	176	176	- - -
Total	$14,000	$14,000	$13,441	$10,043	- - -

Family Violence

Authorizing legislation - Title III, Section 310 of the Child Abuse Amendments of 1984.

1987 Authorization: $26,000,000

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$2,500,000	$2,393,000	$2,393,000 a/	- - -	-$2,393,000

a/ An additional $6 million appropriated in 1985 is available through 1986.

Purpose and Method of Operations - This program is intended to demonstrate the effectiveness of assisting States and, at the option of the Secretary, Indian tribes, in efforts to prevent family violence, to provide immediate shelter and assistance to victims of family violence and their dependents, and to provide for technical assistance and training related to family violence programs to States, local public agencies including law enforcement agencies, non-profit private organizations and other persons seeking such training and technical assistance.

Grants are made to States which apply to support demonstration projects by local governmental and private non-profit agencies. These projects will assist in supporting the establishment, maintenance and expansion of programs to prevent family violence and provide shelter for the victims of such violence and their dependents. The State may not use more than five percent of its total grant for administrative costs. It will give special emphasis to support of community-based projects of demonstrated effectiveness which are carried out by non-profit organizations, particularly those whose primary purpose is to operate shelters for victims of family violence and their dependents and those which provide counseling, alcohol and drug abuse treatment and self help services to victims and abusers. The State is required to involve knowledgeable individuals and organizations and to assure equitable distribution of funds between rural and urban areas.

Allotment of funds to the States is determined by formula. Each State's share is an amount which bears the same ratio to available funds that the State's population bears to the population of all States except that no State will receive less than $50,000 or one-half of one percent of the total State grant funds, whichever is greater. Special provisions are made for the eligible Territories and Insular Areas. Grants will be awarded to States which submit applications which meet criteria determined by the Secretary, Health and Human Services.

This program also requires the Secretary to carry out research, evaluation, coordination, clearinghouse, training, and technical assistance activities.

Funding:

1985	$6,000,000*
1986	$2,393,000

*These funds have extended availability through September 30, 1986.

Rationale for the Budget Request - In 1987 a Family Crisis and Protective Services Grant Program is proposed. This program will consolidate several small, narrowly-constructed categorical programs which address problems related to abuse and neglect of individuals. The proposal would consolidate the Family Violence Program with the Child Abuse State Grants Program, the Child Abuse Discretionary Grant Program, and the Child Abuse Challenge Grant Program, giving States greater flexibility in addressing the related issues of family violence and child abuse.

Family Crisis and Protective Services Grants

Authorizing legislation - Legislation proposed.

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
- - -	- - -	- - -	$30,500,000	+$30,500,000

Purpose and Method of Operations - Legislation to be proposed will provide a flexible and broad authority for State and local governments to address the problems of families and individuals at risk or in crisis. The program will consist of 1) a State grant program and 2), a discretionary grant program that will support such activities as the National Center on Child Abuse and Neglect and the National Child Abuse Information Clearinghouse.

This program consolidates four narrowly-constructed categorical programs. They are: 1) the Child Abuse State Grant Program; 2) the Child Abuse Discretionary Activities Program; 3) the Child Abuse Challenge Grant Program; and 4) the Family Violence Program.

Rationale for the Budget Request - For 1987, legislation is proposed to consolidate several small, existing, narrowly-constructed categorical programs. The request includes $30,500,000, an increase of $6 million over the 1986 revised level of the individual programs being consolidated. The programs being consolidated are:

	1986 Revised Estimate
Child Abuse State Grant	$11,441,000
Child Abuse Discretionary Activiity	$10,043,000
Child Abuse Challenge Grants	$ - - - a/
Family Violence	$ 2,500,000
Total	$23,984,000

a/ No funds appropriated in 1986. The $5 million appropriated in 1985 has 2 year availability. 1985 funds are proposed for rescission.

The Administration is concerned about the number of special at risk groups such as sexually abused children and teenagers, abused spouses, and abused elderly. Instead of the small categorical programs which contain unnecessary restrictions on State and local governments, the consolidation would provide the broader authority and flexibility needed by the State and local governments to address the problems of families in crisis. These grants would achieve a better balance of requirements and incentives for governments to take action to prevent, identify, and treat the problems of abused individuals and families.

Dependent Care Planning and Development

Authorizing legislation - The VI, Section 670A, of the Omnibus Reconciliation Act of 1981.

1987 Authorization: Legislation expires September 30, 1986.

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$5,000,000	$4,785,000	- - - a/	- - -	- - -

a/ A rescission of $4,785,000 is proposed.

Purpose and Method of Operations - The purpose of this new program is to provide States with funds for activities in two specific areas: activities related to dependent care resource and referral systems and activities related to school-age child care services. In each of these two areas, funds may be used to assist in the planning, development, establishment expansion or improvement of services but may not be used for costs of operation of any resource and referral center or before or after school child care program, to make cash payments to intended recipients of services, to subsidize direct provision of services, pay for construction or renovation or to be used as matching funds for Federal funds. Forty percent of funds must be used for activities related to dependent care resource and referral systems and sixty percent for activities related to school-age child care services.

Funds to support these activities are allotted to the States by formula. Each State shall receive an amount which bears the same ratio to the total amount appropriated as the population of the State bears to the population of all States except that no State will receive less than $50,000. The $50,000 minimum does not apply to the eligible Territories and Insular Areas.

Funding levels for the past two years have been:

1985..	$ -0-
1986...............	$5,000,000*

*proposed for rescission

Rationale for the Budget Request - This is a new program which received funding for the first time in 1986. No awards have been made under this authority. The 1986 appropriation is proposed for rescission. Therefore, no funds are requested in 1987. Similar activities can be carried out under other Federal funding sources, such as the $2.7 billion Social Services Block Grant. In addition, many State and local programs addressing this area of concern currently exist.

ADMINISTRATION ON AGING

	1986 Revised Estimate	1987 Estimate	Increase or Decrease
Supportive Services and Senior Centers	$253,605,000	$265,000,000	+$11,395,000
Nutrition Services Congregate Nutrition	321,522,000	336,000,000	+14,478,000
Home-delivered Nutrition Services	64,980,300	67,900,000	+2,919,700
Subtotal	385,502,300	403,900,000	+17,397,700
Grants to Indian Tribes	7,177,500	7,500,000	+322,500
Training, Research, and Discretionary Projects and Programs	12,500,000	12,500,000	---
Federal Council on Aging	191,400	200,000	+8,600
Total.................	$659,976,200	$689,100,000	+$29,123,800

From the total allotments received from Supportive Services and Senior Centers, and Congregate and Home-delivered Nutrition Services, States may use the greater of 5% or $300,000 for State Agency Activities. In the case of American Samoa, Guam, the Virgin Islands, the Trust Territory of the Pacific Islands, and the Commonwealth of the Northern Mariana Islands the greater of 5% or $75,000. Further, up to 8.5% of the funds may be used for Area Agency Activities.

General Statement

The Administration on Aging promotes activities to ensure maximum independence and self-support among today's older persons and for the future aging population. These goals are carried out through two primary strategies. The first is to serve as a Federal focal point for addressing issues affecting the older population. The second is to assist States and localities to promote the development of coordinated community-based service systems for those vulnerable older persons most likely to lose their independence.

Emphasis will be placed on family and community-based care including the awareness of the network, systems development, and targeting resources to those most in need. Increased awareness of State and Area Agencies on Aging will be highlighted to link older persons and their families to appropriate services through a community-based continuum of care. This is intended to help older persons remain independent and in their own homes as long as possible.

Effects of Proposed Legislation

The President's appropriation request of $689,100,000 for this account represents current law requirements. No proposed law amounts are included.

Program Accomplishments

The Administration on Aging carries out its mission through:

- Grants for States for Social and Nutritional Services: Since 1982, the Administration on Aging has provided supportive services to approximately 9 million persons per year, 51 percent of whom were economically needy and 47 percent of whom were socially needy. Approximately 212.8 million meals have been served per year to 3.8 million persons. Twenty-eight percent, or 60 million meals, were home-delivered. In order to assure that services and/or other appropriate alternatives are available to those older persons most in need, Older Americans Act funds are leveraged to build a foundation of services systems which is expanded by State and local investments. Twenty-six percent of the funds available to State agencies, and 31 percent of the funds available to area agencies, resulted from non-federal investments.

- Grants to Indian Tribes: In Fiscal Year 1985, 125 Tribal organizations received grants to serve approximately 24,000 older Indians. In fiscal year 1986, an estimated 135 Tribal organizations will receive grants.

- Training, Research, and Discretionary Projects and Programs: This program supported approximately 300 grants and contracts in 1985. Projects have been supported to recruit persons to the field of aging, to train volunteers and persons employed in, or preparing for, employment in the field of aging, and for other training-related activities. An estimated 31,500 students were trained in academic aging programs and 241,000 State and area agency, and service provider personnel received in-service training in 1985.

Supportive Services and Senior Centers

Authorizing legislation, Section 303 of the Older Americans Act of 1965, as amended.

1987 Authorization: $361,500,000

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$265,000,000	$253,605,000	$253,605,000	$265,000,000	+$11,395,000

Purpose and Method of Operations - Federal funds for Supportive Services and Senior Centers are awarded to each State with an approved State plan on aging under Title III of the Older American Act. Funds are distributed to the States according to the formula prescribed in the Older Americans Act. The formula mandates that no State be allotted less than the total amount allotted under Title III in Fiscal Year 1984. Additional funds are distributed based on the proportion of the population of persons 60 years of age and older in the States. Further, the formula mandates that no State receive less than one-half of one percent of the funds awarded. In the cases of Guam, the Trust Territory of the Pacific Islands, and the Virgin Islands, the formula mandates that they receive at least one-fourth of one percent of the funds awarded. Finally, in the cases of American Samoa and the Northern Mariana Islands, the formula mandates that they receive at least one-sixteenth of one percent of the funds awarded. After determining total funds to be awarded to a State, funds for the individual allotments under Title III are awarded based on the proportion of funds appropriated for each line item.

Submission of an acceptable two-, three-, or four-year State plan describing the State's strategy for meeting the needs of the elderly population is required in order for the State to receive its formula grant monies. These funds may pay up to 85 percent of the costs of operating and establishing supportive services including multipurpose senior centers. State agencies on aging make awards to area agencies which provide for a network of community-based services and other appropriate assistance. Awards made by the States are based on State-approved area plans and intra-State funding formulas.

Supportive services which may be provided include activities in six major categories:

- o Legal, protective, and ombudsman (advocacy, assessment, counseling, interpreting/translating, letter writing/reading, personal care, supervision, guardianship, client-finding, evaluation, income support, training, physical fitness, recreation, escort, shopping, transportation, diagnosis, treatment, visiting, and telephoning);
- o In-home (chore, housekeeping, personal care, repairs, telephoning, and visiting);
- o Access (escort, shopping, transportation, client-finding, information, referral, advocacy, interpreting/translating, and letter writing/reading);
- o Case management (assessment, counseling, evaluation, placement, and diagnosis);
- o Community-based services; and
- o Other needed services.

Each State agency must support the services of an ombudsman who receives, investigates, and acts on compliants by older individuals who are residents of long-term care facilities.

Area agencies must give special emphasis to the provision of services to economically- or socially-needy older persons, with particular attention to low-income minority individuals. These agencies must also assure that appropriate outreach and counseling services are available to older persons with limited English-speaking ability.

In Fiscal Year 1987, emphasis will be on services that contribute to strengthening family and community-based care and in providing assistance to older persons and their families seeking help and information.

In Fiscal Year 1987, a State may elect to transfer up to 30 percent of the funds appropriated between Supportive Services and Senior Centers and Nutrition Services for use as the State considers appropriate.

Since 1981 supportive services have been provided to approximately 9 million persons per year, 51 percent of whom were economically-needy and 47 percent of whom were socially-needy.

There are no fees in this program; however, regardless of income, older persons may make voluntary contributions to help defray the cost of the services. Under current law, these contributions are used to expand services. Program income, including contributions from older persons, has increased during the last four years from $9,800,000 in Fiscal Year 1981 to $19,100,000 in fiscal year 1985.

Funding levels the past five fiscal years have been as follows:

1981	$251,473,000
1982	$240,869,000
1983	$240,869,000
1984	$250,869,000
1985	$265,000,000
1986	$253,605,000

Rationale for the Budget Request - The request for Fiscal Year 1987 is $265,000,000, the same amount as was requested in the Fiscal Year 1986 President's Budget. The request is consistent with policies to place emphasis on services to those most in need; maintain services, while reducing the growth of federal expenditures; and provide for technical assistance and other support to State agencies on aging.

The Administration on Aging will continue to expand management improvement initiatives instituted in Fiscal Year 1983 to increase service levels to the extent possible. Current initiatives are aimed at uniform implemention of processes throughout the aging network which increase program income, improve accountability for such funds, and improve financial and program management of the programs to increase the return on investment of Title III appropriations.

Working through State and area agencies on aging, major efforts have been implemented to increase service levels. Efforts have included performance-based procurement, and fiscal management training.

The request will continue to support the development of coordinated, comprehensive service delivery systems that will assure the planning and delivery of supportive and nutrition services.

Emphasis will be placed on targeting resources on those in greatest need, particularly those in greatest risk of losing their independence. Work will continue on priorities related to strengthening systems of family and community-based care to assure that a continuum of care becomes a reality. Expanded efforts will be made to make the existence of State and Area Agencies more visible to the public so that older persons and their families may more readily access needed services and information. These efforts are also intended to encourage collaboration among public and private agencies in meeting the needs of vulnerable older persons.

PROGRAM DATA

TITLE III - SUPPORTIVE SERVICES

(Return on Federal Investment Improves by 6% each year)

	1985 Enacted	1986 Enacted	1986 Revised	1987 Request
Available after transfers	$270,153,226	$270,153,366	$257,981,274	$270,280,383
Persons Served:				
Access				
Transportation	8,306,000	8,407,000	8,033,000	8,522,000
Outreach	2,227,000	2,255,000	2,154,000	2,285,000
Information and Referral	5,638,000	5,707,000	5,453,000	5,784,000
Other	1,780,000	1,802,000	1,722,000	1,826,000
In-home				
Homemaker	665,000	673,000	643,000	682,000
Home Health Aid	181,000	183,000	175,000	186,000
Visiting/Telephone Reassurance	987,000	999,000	954,000	1,012,000
Chore Maintenance	260,000	263,000	252,000	267,000
Other	344,000	348,000	333,000	353,000
Community Services				
Legal	499,000	505,000	483,000	512,000
Escort	364,000	369,000	352,000	374,000
Residential Repair/Renovation	88,000	89,000	85,000	90,000
Health	994,000	1,006,000	961,000	1,020,000
Other	10,155,000	10,279,000	9,821,000	10,418,000
Services in Care-Providing Facilities	398,000	410,000	392,000	416,000

TITLE III - STATE AGENCY ACTIVITIES

	1985 Enacted	1986 Enacted	1986 Revised	1987 Request
Funds Available for State Agency Activities	$30,526,559	$30,526,559	$30,526,559	$30,526,559
Employees	2,217	2,277	2,277	2,277

Nutrition Services

Authorizing legislation - Section 303 of the Older American Act of 1965, as amended.

1987 Authorization:
Congregate Meals..............................$395,000,000
Home-delivered Meals..........................$ 75,600,000

	1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
Congregate Meals	$336,000,000	$321,552,000	$321,522,000	$336,000,000	+$14,478,000
Home-delivered-Meals	67,900,000	64,980,300	64,980,300	67,900,000	+2,919,700
Total Nutrition Services	$403,900,000	$386,532,300	$386,502,300	$403,900,000	+$17,397,700

Purpose and Method of Operations -The Nutrition Services Program addresses two major difficulties faced by older Americans:

- Nutritional deficiencies due to inadequate income, and/or lack of adequate facilities to prepare food; and
- Social isolation which cuts older persons off from contact with others and is a barrier to access to needed services.

Federal funds for Nutrition Services are awarded to each State with an approved State plan on aging under Title III. Funds are distributed according to the formula prescribed in the Older Americans Act. Funds are distributed based on the proportion of the population of persons 60 years and older in the States.

Submission of an acceptable two-, three-, or four-year State plan describing the State's strategy for meeting the needs of the elderly population is required in order for the State to receive its formula grant monies. These funds may pay up to 85 percent of the costs of the nutrition services provided. State agencies on aging make awards to area agencies. Awards made by States are based on State-approved plans and intra-State funding formulas. Area agencies make awards to service providers for Congregate Nutrition Services and Home-delivered Nutrition Services.

While there are separate authorizations for Congregate and Home-delivered Nutrition Services, State agencies may transfer up to 30 percent of the funds between allotments, and with the Commissioner's approval, may transfer funds in excess of this amount. The 30% limitation was established by regulations published pursuant to the 1984 Amendments to the Older Americans Act. In addition, in Fiscal Year 1987, a State may elect to transfer up to 30 percent of the funds appropriated between Supportive Services and Senior Centers and Nutrition Services for use as the State considers appropriate.

Area agencies must give special emphasis to the provision of services to economically- or socially-needy older persons, with particular attention to low-income minority individuals. These agencies must also assure that appropriate outreach and counseling services are available to older persons with limited English-speaking ability.

Each meal served must: meet one-third of the minimum daily recommended dietary allowances; meet the particular health, religious, or ethnic dietary needs of the participants; and be served in appropriate food containers and with utensils for use by blind and handicapped individuals where feasible and appropriate. Congregate and Home-delivered nutrition services are to be available at least once per day, 5 days per week. The services provided may include nutrition education and outreach.

There are no fees in this program; however, regardless of income, older persons may make voluntary contributions to help defray the cost of the services. These contributions constitute an important resource for the expansion of services. Program income, including contributions from older persons, has increased during the last four years by 74 percent from $69,100,000 in Fiscal Year 1981 to $120,500,000 in Fiscal Year 1985.

Since 1981 an average of 212.8 million meals have been served per year to 3.8 million persons. In FY 1985, 28 percent, or 62 million meals, were home-delivered.

Funding levels the past five fiscal years have been as follows:

1982	$344,099,000
1983	$381,099,000
1984	$388,599,000
1985	$403,900,000
1986	$386,502,300

Rationale for the Budget Request - The request for Fiscal Year 1987 is $403,900,000, the same level as was requested in the Fiscal Year 1986 President's Budget. The request includes $336,000,000 for Congregate Nutrition Services, and $67,900,000 for Home-delivered Nutrition Services. The request is consistent with policies to place emphasis on services to those most in need; maintain services, while reducing the growth of federal expenditures; and to provide for technical assistance and other support to State agencies on aging.

The Administration on Aging will continue to expand management improvement initiatives instituted in Fiscal Year 1983 to increase service levels to the extent possible. Current initiatives are aimed at uniform implementation of processes throughout the aging network which increase program income, improve accountability for such funds, and improve financial and program management of programs to increase the return of investment of Title III appropriation.

Working through State and area agencies on aging, major efforts have been implemented to increase service levels. Efforts have included: site consolidation, fiscal management training, and consolidated food service contracts.

The request will continue to support coordinated, comprehensive service delivery systems to provide for the planning and delivery of supportive and nutrition services.

Emphasis will be placed on targeting resources, including program income, to those in greatest need, particularly those who are in the greatest risk of losing their independence. Priorities related to strengthening the systems of family and community-based care will be addressed to assure that a community- based continuum of care becomes a reality. Efforts will be expanded to make the existence of State and Area Agencies on Aging more visible to the public so that older persons and their families may more readily access needed services and information. These efforts are also intended to encourage collaboration among public and private agencies in meeting the needs of vulnerable older persons.

PROGRAM DATA

TITLE III - NUTRITION SERVICES

(Return on Federal Investment Improves by 6% each year)

	1985 Actuals	1986 Enacted	1986 Revised	1987 Request
Available for Meals after evaluation tap and transfers	$367,018,734	$367,793,058	$351,329,467	$367,793,058
Return on Federal Investment	1.71	1.67	1.67	1.65
Meals Supported	217,447,734	220,642,000	210,693,000	222,905,000
(Congregate)	(155,692,000)	(157,979,708)	(150,856,200)	(159,599,980)
(Home-delivered)	(61,755,000)	(62,662,300)	(59,836,800)	(63,305,020)
Program Income:				
Title III-B	19,100,000	20,200,000	20,200,000	21,400,000
Title III-C	120,500,000	127,800,000	127,800,000	135,500,000
Total	$139,600,000	$148,000,000	$148,000,000	$156,900,000
Per Meal	55¢	58¢	61¢	61¢
Change in Program Income:				
Title III-B	6%	6%	6%	6%
Title III-C	6%	6%	6%	6%
Total	6%	6%	6%	6%
Per Meal	2%	5%	5%	N/C

Grants to Indian Tribes

Authorizing legislation - Section 608(a) of the Older Americans Act of of 1965, as amended.

1987 Authorization: $8,600,000

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$7,500,000	$7,177,500	$7,177,500	$7,500,000	+$322,500

Purpose and Method of Operations - Awards are made to tribal organizations which represent at least 60 older Indians per organization, to develop the capacity of these organizations to provide services to older Native Americans not served by Title III programs. Grantees will provide a broad range of services and must assure that nutrition services, and information and referral services are available.

Other services which may be provided under these grants include: services which facilitate access, such as transportation, road clearing, outreach, escort, individual needs assessment, and service management,; services provided in the community, such as continuing education, health and health screening, program development and coordination activities, water services, temporary shelter, day care, protective services, and recreation; services provided in the home, such as fuel assistance, home health, homemaker services, chore, visiting and telephone reassurance; and services provided to residents of care-providing facilities, such as casework, counseling, and group services. The tribal organization may use funds for the acquisition, alteration, lease or renovation of a facility to be used as a senior center, and for staffing the centers.

Since 1980, the first year that this program was funded, services have been provided to approximately 19,000 older Indians per year.

In Fiscal Year 1985, 125 Tribal organizations were funded. In Fiscal Year 1986, 135 Tribal organizations will receive funds.

Funding levels during the past five Fiscal years have been as follows:

1982	$5,735,000
1983	$5,735,000
1984	$5,735,000
1985	$7,500,000
1986	$7,177,500

Rationale for the Budget Request - The request for Fiscal Year 1987 is $7,500,000, the same amount as was requested in the Fiscal Year 1986 President's Budget. These funds will be used to promote opportunities for older Indians to secure and maintain independence and self-sufficiency and to ensure, to the extent feasible, that services, opportunities, or other appropriate assistance is available to those older Indians in need. An estimated 135 grants will be made serving over 24,000 older Indians.

PROGRAM DATA

TITLE VI- MEALS

(Return on Federal Investment Improves by 6% each year)

	1985 Actuals	1986 Enacted	1986 Revised	1987 Request
Available funds	$7,500,000	$7,500,000	$7,177,500	$7,500,000
Nutrition Program Data:				
Meals Supported	1,175,590	1,199,582	1,175,590	1,253,482
(Congregate)	(705,354)	(719,750)	(705,354)	(652,100)
(Home-delivered)	(470,236)	479,832)	(470,236)	(501,382)
Total Units of Social Services	1,016,682	1,047,810	1,026,952	1,094,890

Training, Research, and Discretionary Programs

Authorizing legislation - Sections 431 and 310 of the Older Americans Act of 1965, as amended.

1987 Authorization: $31,400,000

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$25,000,000	$23,925,000	$12,500,000	$12,500,000	- - -

Purpose and Method of Operations - The purpose of the Training, Research, and Discretionary Program is to expand the nation's knowledge and understanding of aging and the aging process, to design and test innovative ideas in programs and services for older individuals, and to help meet the needs for trained personnel in the field of aging through: (1) placing priority on the education and training of personnel to work with and on behalf of older individuals; (2) research and development of effective practices in the field of aging; (3) demonstration projects directly related to the field of aging; and (4) dissemination of information on aging and the aging process acquired through such programs to public and private organizations or programs for older individuals.

Grants may be made to any public or non-profit private agency, organization or institution. Contracts may also be made to fund these activities. Among those institutions funded are colleges, universities, State and area agencies on aging, organizations representing and/or serving older people, and other government and non-government institutions.

Research and Demonstration activities currently center on established priorities such as the development of innovative and non-traditional approaches to promoting social services, the promotion of public/private sector partnerships, health promotion activities, and the promotion of individual self-sufficiency. This program supported approximately 300 grants and contracts in Fiscal Year 1985.

As authorized by the Older Americans Act, projects have been supported to recruit persons to enter the field of aging, train volunteers and persons employed in or preparing for employment in the field of aging and other training-related activities. An estimated 31,500 students were trained in academic aging programs and 241,000 State and area agencies, and service provider personnel received in-service training in 1985.

Funding levels during the past five Fiscal Years have been as follows:

1982	$22,175,000
1983	$22,175,000
1984	$22,175,000
1985	$25,000,000
1986	$12,500,000

Rationale for the Budget Request - The request for Fiscal Year 1987 is $12,500,000, the same level as was requested in the Fiscal Year 1986 President's Budget. As the Older Americans Act programs have matured, $12,500,000 is sufficient to fund only high quality aging research not duplicative of research done elsewhere.

Support for high priority projects will continue to be provided in Fiscal Year 1987, including knowledge-building and technology transfer to assist and build the capacity of State and Area Agencies on Aging, and more effective dissemination of existing knowledge resulting from research and demonstration programs.

During Fiscal Year 1987, the Administration on Aging will continue to provide assistance to State and area agencies on aging through:

- Education and Training: Education and training activities which focus on career preparation and training for persons who will work with the economically and socially needy older persons. Emphasis will be given to training older persons, persons who are members of minority groups or interested in working with minorities, and persons who live in rural areas or are interested in working with older persons living in rural areas.

- Research and Demonstration: Demonstration, research, and model projects which will continue to carry out innovative and developmental projects and activities of national significance with promise of substantial impact on the development of an improved community-based continuum of care for vulnerable older persons throughout the nation. Special emphasis will be placed on projects which address the development or improvement of service systems designed to assist older persons in danger of losing their independence.

  Particular attention will be given to enhancing further the capacity of State and Area Agencies on Aging to assure the development of local service delivery systems that assist in the provision of family and community-based care. Projects will be supported which facilitate the efforts of State Agencies on Aging, and encourage and assist Area Agencies on Aging, to develop comprehensive and coordinated systems of service at the local level. Special projects authorized under this subsection will provide assistance and incentives to State and Area Agencies on Aging to target available resources, both staff and financial, on efforts which enhance services to the population of vulnerable elderly.

As required by Section 310 of the Older Americans Act, funds will be set aside to provide reimbursement to States for the delivery of services during major disasters declared by the President.

TITLE IV - TRAINING, RESEARCH, AND DISCRETIONARY PROJECTS AND PROGRAMS

	FY 1985 Enacted	FY 1986 Enacted	FY 1986 After Se- questering	FY 1986 Revised	FY 1987 Request
Education and Training	$8,006,355	$7,900,000	$7,560,300	$5,500,000	$5,500,000
New	(3,500,000)	(7,000,544)	(6,699,520)	(4,639,220)	(2,000,000)
Continuations	(4,506,355)	(899,456)	(860,780)	(860,780)	(3,500,000)
Research	600,000	1,000,000	957,000	957,000	957,000
New	(600,000)	(800,000)	(765,600)	(800,000)	(500,000)
Continuations	(0)	(200,000)	(191,400)	(157,000)	(457,000)
Demonstrations	15,943,645	15,650,000	14,977,050	5,612,350	5,612,350
New	(15,115,197)	(12,950,000)	(12,374,600)	(3,028,450)	(3,612,350)
Continuations	(828,448)	(2,700,000)	(2,602,450)	(2,583,900)	(2,000,000)
Legal Services	450,000	450,000	430,650	430,650	430,650
New	(450,000)	(450,000)	(430,650)	(430,650)	(430,650)
Continuations	(0)	(0)	(0)	(0)	(0)
Total	25,000,000	25,000,000	23,925,000	12,500,000	12,500,000
New	(19,665,197)	(21,200,544)	(20,270,370)	(8,898,320)	(6,543,000)
Continuations	(5,334,803)	(3,799,456)	(3,654,630)	(3,601,680)	(5,957,000)

Federal Council on Aging

Authorizing legislation - Section 204(g) of the Older Americans Act of 1985, as amended.

1986 Authorization: $200,000

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$200,000	$191,400	$191,400	$200,000	+$8,600

Purpose and Method of Operations - The Federal Council on Aging was established by Congress in 1973 to advise the President, the Secretary of Health and Human Services, the Commissioner on Aging, and the Congress on matters related to the special needs of older Americans. The Act requires the Council to:

- review and evaluate Federal policies and programs regarding the Aging to appraise their value and impact on the lives of older Americans;
- serve as a spokesman on behalf of older Americans;
- inform the public about the problems and needs of older Americans;
- provide public forums, hearings, conferences, workshops, and other meetings to discuss the needs of the aging;
- report annually to the President on its findings.

The Council has studied long-term care insurance as a strong potential for helping family caregivers continue to provide most of the care for their frail elderly family members. This position was underscored in 1985 by a report for the Council authored by Dr. Harold Feldman of Cornell University. The report is The Relevance of Long Term Care Insurance for Family Caregivers.

The twentieth anniversary of the Older Americans Act, in 1985, occasioned the Council to sponsor three lectures saluting this legislation. These lectures were delivered by Dr. William Bechill, the first Commissioner on Aging; Carol Fraser-Fisk, Acting Commissioner on Aging; and Dr. Robert Binstock, Professor of Gerontology at Case-Western Reserve.

The third area of focus in 1985 was the development of a staff report, Health Care Study for Older Americans. This study contains a list of eighteen proposals/options addressing the health care problems of the nation and its elderly population.

The funding levels supporting the Council over the past five years have been:

1982	$191,000
1983	$175,000
1984	$175,000
1985	$200,000
1986	$191,400

Rationale for the Budget Request - The 1987 request of $200,000, the same level as was requested in the Fiscal Year 1986 President's Budget, will support two full time staff and per diem and travel of the Council. The Council will continue in its advisory role to the President, the Secretary of Health and Human Services, the Commissioner on Aging, and the Congress.

ADMINISTRATION ON DEVELOPMENTAL DISABILITIES

	1986 Revised Estimate	1987 Estimate	Increase or Decrease
State Grants..	$50,250,000	$50,250,000	---
Protection and Advocacy Grants........	13,750,000	13,750,000	---
Special Projects......	---	---	---
University Affiliated Facilities....	9,000,000	9,000,000	---
Total budget Authority.....	$73,000,000	73,000,000	---

General Statement

The Administration on Developmental Disabilities supports the delivery of services which promote self-sufficiency and protect the rights of persons of all ages with developmental disabilities. The policy of the Developmental Disabilities Program is to promote increased independence, productivity, and integration into the community for this vulnerable population.

Developmental disabilities are defined as severe, chronic disabilities attributed to mental or physical impairments manifested before age twenty-two, which cause substantial limitations in at least three areas of major life activity, and result in the need for services over an extended period of time. Possible limitations include: self-care, receptive and expressive language, learning, mobility, self-direction, capacity for independent living, and economic independence.

Twenty-five years ago, most States relied primarily on institutional care for developmentally disabled persons who could not be kept at home. Today, all States are developing comprehensive, community-based systems of care. The common thread that runs through these programs is the recognition that the individual, the family, the community and the larger society are better off when persons with developmental disabilities are fully integrated into all aspects of community life. The success of the public school system in educating persons with developmental disabilities is well recognized. However, there remains the challenge of comparable success in "mainstreaming" persons with developmental disabilities into the work force. Persons with developmental disabilities moving out from the educational system are in need of transition services that maximize their potential for productivity, independence and community integration.

The Fiscal Year 1987 funds are requested to continue to: enhance States' capacity to manage programs for developmentally disabled persons; target services to foster the self-sufficiency of persons in need of better training and expand the number of direct care service personnel; and promote the hiring of the developmentally disabled in the private business sector.

Effects of Proposed Legislation

The President's appropriation request of $73,000,000 for this account represents current law requirements. No proposed law amounts are included.

Program Accomplishments

To promote the independence, productivity, and community integration of developmentally disabled persons, an extensive array of service developments have been witnessed in the 1980s. The Developmental Disabilities Program has contributed to the improvements in recent years through support of State programs and is reflected by:

- Continued promotion of self-sufficiency for persons with developmental disabilities with the support of private business leaders. In 1985, the Administration on Developmental Disabilities received 59,357 pledges for private sector employment and 57,995 persons with developmental disabilities were placed in competitive employment.

- Participation by eight States in an employment academy to help these States develop action plans and implement policy initiatives to facilitate employment as an option for persons with a range of abilities.

- Collaboration, with the focus on systemic change, between the Department of Education and the Administration on Developmental Disabilities of awards to ten States to implement State-wide supported work opportunities over the next five years.

In addition:

- It is estimated that over 200,000 persons receive direct services each year through the Basic State Grant program. Forty-six State Developmental Disabilities Councils have implemented State employment campaigns. In Fiscal Year 1985, twenty-two States initiated campaigns to prevent developmentally disabling conditions.

- Reports from forty-one States indicated that, in Fiscal Year 1985, the Protection and Advocacy agencies in those States provided services to over 45,000 persons with developmental disabilities. This is a significant increase over previous years.

- Awards were made to thirty-six University Affiliated Facilities and seven Satellite Centers in Fiscal Year 1985. This includes three new satellites established in Connecticut, Minnesota, and Virginia, following completion of feasibility studies and application reviews.

- In Fiscal Year 1985, this program of Federal assistance enabled the University Affiliated Facilities to sustain a total network budget of $117 million, thereby generating $12 of private and public support for each dollar of assistance from the Administration on Developmental Disabilities.

- In 1985, the University Affiliated Facility program provided: preventive, early intervention, health care, treatment and evaluative services to 46,681 children and youth and 15,605 adult and elderly persons with developmental disabilities; unique supervised practicum, interdisciplinary training or specialized short term experiences to 9,805 persons, including 1,215 students who received advanced training in leadership and extensive interdisciplinary competencies, 3,200 students who received training in team practitioner competencies, and 5,390 trainees in special service applications.

Basic State Grants

Authorizing legislation - Section 130, Developmental Disabilities Act of 1984, Public Law 98-527.

1987 Authorization: $56,500,000

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$53,400,000	$51,104,000	$50,250,000	$50,250,000	---

Purpose and method of operations - The Developmental Disabilities Program assists States in developing and implementing a comprehensive plan for meeting the needs of persons with developmental disabilities. Program emphasis is on ensuring that persons with Developmental Disabilities have the range of services available to them which best promote self-sufficiency.

The basic goal of the program is to provide for significant improvement in the quality, scope, and extent of services for persons with developmental disabilities by means of:

- Providing priority services which include alternative community living arrangement services, employment related activities, child development services, and case management services;
- Providing specialized services and other adaptations of generic services for persons with developmental disabilities; and,
- Planning, coordination, administration, and advocacy for the provision of services to persons with developmental disabilities. This includes a Statewide plan for the provision of services to developmentally disabled persons using the resources of many other State and local programs.

Grants are awarded to strengthen existing services by providing financial assistance to designated State agencies and State planning councils. Allocations of Developmental Disabilities Basic Support and Protection and Advocacy funds are based on requirements of Section 130 of the Act, which states that the sums appropriated for each year shall be allotted among the States on the basis of: the population, the extent of need for services for persons with developmental disabilities, and the financial need of the respective States.

As provided in the Act, the minimum allotments to each State, the District of Columbia, and Puerto Rico at the budget request level are $300,000 for Basic Support and $150,000 for Protection and Advocacy. For the Virgin Islands, American Samoa, the Commonwealth of the Northern Mariana Islands, Guam, and the Trust Territory of the Pacific Islands, the allotment shall not be less than $160,000 for Basic Support and $80,000 for Protection and Advocacy.

Current legislation requires that these funds be used to make grants in accordance with approved State plans for services for persons with developmental disabilities. The aggregate Federal share of such grants may not exceed seventy-five percent except in the case of urban or rural poverty areas, in which case the Federal share may not exceed ninety percent.

The Basic Support Program has acted as "seed money" to initiate new and innovative services. The investment of Developmental Disabilities funds has resulted in an expansion of needed services beyond the scope of services that were initiated.

The funding level for the last five years for the Basic State Grant Program has been as follows:

1982	41,453,000
1983	43,180,000
1984	43,750,000
1985	50,250,000
1986	50,250,000

Rationale for the Budget Request - The budget request for Basic State Grants for Fiscal Year 1987 is $50,250,000, the same as was requested in the Fiscal Year 1986 President's Budget. The request is consistent with Administration policy to maintain service programs at 1986 President's Budget levels.

Fiscal Year 1987 funds are requested to continue administration, planning, coordination, and services for developmental disabilities State program operations. These activities will allow States to continue to develop programs which help developmentally disabled persons achieve a greater degree of independence, productivity and integration into the community.

These funds will provide payments to States to plan and conduct activities in order to provide comprehensive services to persons with developmental disabilities, with priority to those persons whose needs are not otherwise met under other health, education and human service programs.

Protection and Advocacy Grants

Authorizing legislation - Section 143, Developmental Disabilities Act of 1984, Public Law 98-527.

1987 Authorization: $15,500,000

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$14,600,000	$13,972,000	$13,750,000	$13,750,000	---

Purpose and method of operations - The Protection and Advocacy Program is a State operated system to protect and advocate for the rights of persons with developmental disabilities.

For a State to receive a protection and advocacy grant, the State must have a system in place to protect the rights of persons with developmental disabilities. Grants are awarded based on a formula that takes into account the population, the extent of need for services for persons with developmental disabilities, and the financial need of the State. This system provides the authority to pursue legal, administrative, and other appropriate remedies to insure the protection of the rights of developmentally disabled individuals who are receiving treatment, services, or habilitation within the State. The grantee must be independent from any agency which provides such services.

The funding level for Protection and Advocacy for the last five years has been as follows:

1982	7,680,000
1983	7,320,000
1984	8,400,000
1985	13,750,000
1986	13,750,000

Based upon data from forty-one State Protection and Advocacy agencies, it is estimated that 30,000 persons received direct services nationwide through the Protection and Advocacy program in Fiscal Year 1984.

The breakdown of the types of disabilities of persons provided services in the forty-one States included in the data is as follows:

TYPE OF DISABILITY	PERCENT
Autism	2
Cerebral Palsy	4
Dual Diagnosis	6
Epilepsy	3
Learning Disabilities	6
Mental Illness	16
Mental Retardation	29
Orthopedic/Physical	12
Hearing Impaired	3
Visually Impaired	2
Other (including multiple physical handicaps, spina bifida, Tourettes Syndrome, etc.)	17
TOTAL	100

The most common types of assistance were provided to persons with problems related to education, employment, transportation, vocational rehabilitation, medical services, abuse and neglect, housing, architectural barriers, and guardianship.

In addition, Protection and Advocacy systems provided training to over 80,000 persons including the general public and specialized groups like the parents of disabled children.

Rationale for the Budget Request - The budget request for Protection and Advocacy grants is $13,750,000, the same as was requested in the Fiscal Year 1986 President's Budget. The request is consistent with Administration policy to maintain service programs at 1986 President's Budget levels. This level of funding will allow the protection and advocacy system to continue efforts in support of Developmental Disabilities Program goals. These efforts include: outreach to individuals who fall outside normal communication channels such as minorities, persons with language barriers, and those who are culturally or geographically isolated; services to institutionalized persons; and training of concerned citizens, developmentally disabled persons, and other advocacy and community groups to increase State advocacy resources.

The Protection and Advocacy Systems will provide such services as outreach, hotlines, information and referral, counseling and legal services, advocacy activities (individual, systems, and legislative) and training to service providers on the rights of developmentally disabled persons. Advocacy services will continue to rely heavily on referral, counseling, negotiation, administrative hearings and training of parents, providers and handicapped persons.

Special Projects

Authorizing legislation - Section 163, Developmental Disabilities Act of 1984, Public Law 98-527.

1987 Authorization: $3,100,000

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$ 2,800,000	$ 2,680,000	$ ---	$ ---	---

Purpose and method of operations - This program provides financial assistance for developing new technology and applying innovative methods to support the independence, productivity, and integration into the community of persons with developmental disabilities. Grants are awarded for demonstration, research, and evaluation projects which will expand or otherwise improve services to persons with developmental disabilities.

Funding levels for Special Projects for the last five years have been as follows:

1982	2,350,000
1983	2,500,000
1984	2,447,000
1985	2,700,000
1986	- 0 -

Rationale for the Budget Request - The Fiscal Year 1987 budget for Special Projects is zero. This is consistent with the Administration's policy to reduce discretionary activities in order to focus support on State grant programs that provide services.

University Affiliated Facilities

Authorizing legislation - Section 154, Developmental Disabilities Act of 1984, Public Law 98-527.

1987 Authorization: $10,100,000

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$ 9,600,000	$ 9,187,000	$ 9,000,000	$ 9,000,000	---

Purpose and method of operations - This program currently provides operational and administrative support for a national network of thirty-six University Affiliated Facilities and seven Satellite Centers. Grants are made annually to University Affiliated Facilities and Satellite Centers based upon exceptional performance involving interdisciplinary training, exemplary services, technical assistance, and dissemination of information to increase the independence, productivity and community integration of persons with developmental disabilities.

Grants are made to assist University Affiliated Facilities and Satellite Centers in administering and operating facilities for the provision of diagnostic, evaluative and treatment services to individuals with developmental disabilities, and for interdisciplinary training programs for personnel needed to provide specialized and generic services to these individuals.

In Fiscal Year 1986, approximately 60,000 individuals with developmental disabilities and their families will receive direct services from University Affiliated Facilities and Satellite Centers. These services range from initial diagnosis, evaluation, and treatment to community-based services such as living arrangements and vocational training.

In addition, approximately 10,000 persons will participate under University Affiliated Facility interdisciplinary training programs in Fiscal Year 1986. Over 1,300 students will receive advanced training, and 3,500 will receive interdisciplinary training in practitioner competencies. In addition, approximately 225,000 providers, parents, administrators, students and persons with developmental disabilities benefitted from outreach training, seminars and workshops conducted and sponsored by the University Affiliated Facility network.

The Developmental Disabilities Program funds serve as a catalyst for other funds, providing the Developmental Disabilities University Affiliated Facility network an administrative base on which to build the service and training programs needed within specific States and regions. In Fiscal Year 1985, this program of Federal assistance enabled the University Affiliated Facilities to sustain a total budget of $117 million, thereby generating $12 of private and public support for each dollar of assistance from the Administration on Developmental Disabilities.

In Fiscal Years 1986 and 1987, the University Affiliated Facility program will continue initiatives which address priority issues, emerging policies and societal trends affecting persons with developmental disabilities. These special areas of focus include:

- Continuation of the University Affiliated Facility Adult Services Initiative to provide assistance to States and communities to better plan and deliver services to the increasing numbers of adults and elderly persons with developmental disabilities;

- Assistance under the President's Employment Initiative for Persons with Developmental Disabilities through the development of model curriculum and training of State agency staff and community service providers involved in supported employment programs;

- Development, testing, and implementation of a University Affiliated Facility data base and reporting system to meet the quantitative and qualitative reporting mandate of the Developmental Disabilities Act of 1984;

- Increased recruitment and training of community based service personnel with emphasis on minority outreach and co-involvement of community colleges; and

- Increased dissemination of innovative, cost-effective service technologies.

The funding level for University Affiliated Facilities for the last five years has been as follows:

1982	7,200,000
1983	7,500,000
1984	7,800,000
1985	9,000,000
1986	9,000,000

Listed below are the thirty-six University Affiliated Facilities and seven Satellite Center grantees and their Fiscal Year 1985 grant levels:

University Affiliated Facilities - Fiscal Year 1984

University of Alabama....................	$243,580
University of California (Irvine).......	175,000
University of California at Los Angeles.	175,000
Children's Hospital of Los Angeles......	175,000
University of Colorado..................	175,000
Georgetown University...................	195,000
University of Miami.....................	175,000
University of Georgia...................	291,069
Indiana University......................	175,000
University of Iowa......................	362,279
University of Kansas....................	338,941
University of Kentucky..................	175,000
Louisiana State University..............	175,000
John F. Kennedy Institute (Hopkins).....	296,397
Children's Hospital (Boston)............	244,676
Eunice Kennedy Shriver Center for Mental Retardation....................	222,360
Wayne State University..................	175,000
University Affiliated Program of Mississippi...........................	175,000
University of Missouri at Kansas City...	175,000
University of Nebraska..................	175,000
Rutgers Medical School..................	210,000
Rose F. Kennedy Center (Einstein).......	232,000
Mental Retardation Institute............	175,000
University of North Carolina............	175,000
University of Cincinnati................	175,000
Ohio State University...................	175,000
University of Oregon (Eugene)...........	300,000
University of Oregon (Portland).........	175,000
Temple University.......................	175,000
University Affiliated Facility Program of South Carolina.....................	175,000
University of South Dakota..............	175,000
University of Tennessee.................	175,000
Utah State University...................	311,220
University of Washington................	251,467
West Virginia University................	325,000
University of Wisconsin.................	190,000
Subtotals for UAFs.....................	$7,688,989

Satellite Centers

Navajo Community College	175,348
University of Hawaii	175,000
University of Minnesota	312,500
University of Montana	150,000
University of Rochester	135,472
University of Vermont	150,191
Virginia Commonwealth University	212,500
Subtotal, Satellite Centers	$1,311,011
TOTAL, University Affiliated Facilities	$9,000,000

Rationale for Budget Request - The Fiscal Year 1987 request for the University Affiliated Facilities Program is $9,000,000, the same as was requested in the Fiscal Year 1986 President's Budget. This level of funding will allow the forty-three University Affiliated Facilities and Satellite Centers to continue to provide interdisciplinary training, conduct service and technical assistance demonstration programs, and disseminate information which will increase and support the independence, productivity, and integration into the community of persons with developmental disabilities.

The University Affiliated Facilities and Satellite Centers are the primary providers of interdisciplinary training and information for the professionals, para-professionals, parents, and volunteers providing care, treatment, and services. The University Affiliated Facilities and Satellite Centers will remain integral to meeting the service needs of individuals with developmental disabilities.

ADMINISTRATION FOR NATIVE AMERICANS

	1986 Revised Estimate	1987 Estimate	Increase or Decrease
Financial Assistance Grants....................	$26,126,000	$27,300,000	+$1,174,000
Training and Technical Assistance................	85,000	- - -	-85,000
Research Demonstration, and Evaluation...........	- - -	- - -	- - -
Total, Budget Authority	$26,211,000	$27,300,0900	+$1,089,000

General Statement

Native American Programs promote self-sufficiency of American Indians, Alaska Natives and Native Hawaiians by encouraging economic and social development. The Administration for Native Americans defines self-sufficiency as the level of development at which a Native American community can control and internally generate resources to provide for the needs of its members and meet its own short and long range social and economic goals. Social and economic underdevelopment is the paramount obstacle to the self-sufficiency of Native American communities and families. Social and economic underdevelopment contributes to high unemployment and school drop out rates, poor health and other problems which affect Native Americans to a greater degree than almost any other population group. The lack of a strong diversified economic base has made Native American communities especially dependent on Federally-designed, Federally-funded and Federally-operated programs. Native American Programs and their policies foster a balanced developmental approach at the community level through three major goals: 1) Governance: To help develop or strengthen Tribal governments, Native American institutions, and local leadership to assure local control over all resources; 2) Economic Development: To foster stable, diversified local economies which provide jobs and reduce dependency on social services; and 3) Social Development: To support access to and coordination of services and programs which safeguard the health and well-being of a community and its people. These goals are based on the premise that the local Native American community has the primary responsibility for determining its own needs, for planning and implementing its own programs and for building an economic base from its own natural, physical and human resources.

Effects of Proposed Legislation

The President's appropriation request of $27,300,000 assumes passage of legislation to reauthorize the program.

Program Accomplishment

Accomplishments resulting from grants and interagency agreements funded by the Administration for Native Americans (ANA) include:

- Increased employment of Native Americans - The annual total of new jobs created for Indians and Native Hawaiians in fiscal year 1985 was 12,095. These jobs resulted from social and economic development projects funded by the Administration for Native Americans.

- Indian Businesses - A total of 340 Indian, 9 Alaskan Native, 24 Native Hawaiian business efforts were initiated or expanded with Administration for Native Americans assistance in fiscal year 1985.

- Tribal Codes - The governmental functions of 58 tribes have been strengthened through the enactment of codes and management improvements. The codes developed in 1985 were in the areas of environmental protection, business and commerce, and taxation and contracting. Fifteen new Tribal Employment Rights Offices (TEROS) were established in fiscal year 1985, bringing the total to 105.

- Tribal Merit Personnel Management Systems - Indian Tribes and Native American organizations are being assisted by the Administration for Native Americans to identify and address personnel and related management and organizational goals, and to implement merit-based personnel management systems. Evaluation findings show a significant positive impact on the tribal organization, resulting in cost savings from newly established competitive pay scales and improved cooperation between the Bureau of Indian Affairs and tribal personnel in evaluating personnel management systems.

- Indian Housing - Sixty-seven housing units were constructed or renovated on reservations during fiscal year 1985. In fiscal year 1985 the Administration for Native Americans (ANA) emphasized housing by issuing a special supplemental program announcement. This resulted in ANA funding fourteen projects for the development of initiatives to enlarge and improve the housing stock available to Native Americans.

- Alaska Native Village Development - Eighteen grants totalling $1.3 million were awarded in fiscal year 1985. These Alaska Native village social and economic development projects which cover a variety of areas that create permanent unsubsidized jobs, increase village control over their own resources and improve the general well-being of community members.

Financial Assistance Grants

Authorizing legislation - Section 814 of the Native American Programs Act of 1974, as amended. Legislation expires September 30, 1986. Extension legislation to be proposed.

1987 Authorization: Authorization expires September 30, 1986. Reauthorization legislation to be submitted.

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$27,300,000	$26,126,000	$26,126,000	$27,300,000	+$1,174,000

Purpose and Method of Operations - Financial assistance is provided through direct grants and interagency agreements to promote social and economic self-sufficiency for Native Americans. These grants are made to Federally-recognized Indian Tribes, Alaska Native organizations and consortia, non-Federally recognized Tribes, urban and rural non-reservation Native American organizations and Native Hawaiian organizations. These grants allow maximum local flexibility for self-determination; marshal Federal, State, local, tribal or organizational resources toward local objectives; prevent duplication in funding and programs; and enable Native American communities to build stable local economies and reduce welfare dependency.

Examples of recent accomplishments included:

CONSTRUCTION: The Oneida Tribe of Wisconsin used its ANA grant to develop the financial and management package for the construction of a 200-room, $10.5 million hotel on 56 acres of tribal land near the largest airport serving northeast Wisconsin and upper Michigan. The hotel will create at least 150 new jobs for tribal members and will increase tribal revenue. All funding is in place, construction began in the Fall of 1984, and the hotel will be completed in June 1986.

INVESTMENT: The Passamaquoddy Tribe is using ANA funds to coordinate the investment activities of the settlement funds received from the Maine Indian Land Settlement Act of 1980. The tribe invested in several businesses, including a blueberry company, a cement company, a radio station and processing and canning plants. The business holdings netted 130 percent of the $2 million purchase price.

JOBS: The Pueblo of Laguna in New Mexico is utilizing an ANA grant to help build a diversified local Indian economy. The Tribe is establishing a depot maintenance center for high technology military equipment with the Department of Defense. Raytheon Corporation is lending managerial and technical assistance as well. This project will provide a stabilized economic environment in which the Pueblo's current economic endeavors and private development activity will flourish. In the first year alone, the net profit is projected to be $2.3 million, and there will be 315 persons employed in the enterprise.

HIGH TECH: The Eastern Band of Cherokees has developed a high technology electronics repair and manufacturing operation, a joint venture between the tribe and private investors. About 25 people were trained and now have jobs; the business has shown a profit in its first year of operation and is expanding to include a cable TV system construction component. The Tribe has also increased its trout farming with additional staff and equipment. The Tribe is also developing a brochure to encourage industries to locate on the reservation.

BAY AREA BUSINESSES: The Corporation for American Indian Development (CAID) serves a population of 45,000 Native Americans in San Francisco and four surrounding counties. In 1981, the area had only five Indian-owned businesses. CAID is concentrating on business development and has sought and received thousands of dollars worth of free technical consultation from area business organizations. Several area tribes have new businesses underway or in development, including businesses in the areas of food supply, timber, and tour service. CAID also helped the local Department of Social Services to hire three Native Americans as caseworkers, thereby increasing sensitivity to and contact with the Native American communities in the area.

20th CENTURY FISHING: The small community of Atka in the western part of Aleutian Islands, population 97, is moving from fishing as a means of subsistence to fishing as a means toward self-sufficiency in the 20th century. Atka has used ANA funds to improve an airstrip to fly out shipments of halibut to markets in Canada and the United States. In late 1984, the community received ANA funding to determine the extent of markets for halibut and to work with the North Pacific Halibut Commission on agreements about markets and shipping schedules. In 1984, with a fishing season that ran for 3 days per month for 5 months, 40 Atkan fishermen cleared an average of $5,000 each after expenses.

Recent funding levels for Financial Assistance Grants have been as follows:

1982	$26,300,000
1983	$26,300,000
1984	$27,300,000
1985	$27,300,000
1986	$26,126,000

Rationale for the Budget Request - The Fiscal Year 1987 request of $27,300,000, is the same as the Fiscal Year 1985 appropriation. The funds requested will continue to promote social and economic self-sufficiency for American Indians, Alaska Natives, and Native Hawaiians.

Financial assistance funds will support projects that are expected to result in sustained improvement in the social and economic conditions of Native Americans within their communities and, at the same time, increase the effectiveness of Indian tribes and Native American organizations in achieving their own economic and social goals.

The projects funded must clearly identify the expected results or the impact of achieving the proposed project objectives in measurable terms. Anticipated results include improved organizational effectiveness, new linkages with the private sector economy and improved coordination of Federal and non-federal resources to meet human needs in a developing economy. All awards will be made on a competitive basis and those projects funded are expected to make a lasting impact on the prosperity and well-being of Native American communities.

ADMINISTRATION FOR NATIVE AMERICANS

(dollars in thousands)

		1985 Actual		1986 Enacted		1986 After Sequestering		1987 Request	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount
I.	Federally Recognized Native Americans								
	A. Tribes	107	$14,537	107	$13,669	103	$13,081	107	$13,669
	B. Alaska	19	1,351	19	1,351	19	1,293	19	1,351
	C. Consortia	8	1,395	8	1,395	7	1,335	8	1,395
II.	Non-Federally Recognized Native Americans								
	A. Tribes	21	1,341	21	1,341	20	1,283	21	1,341
	B. Urban	29	3,501	38	4,369	36	4,181	38	4,369
	C. Rural	3	159	3	159	3	152	3	159
	D. Consortia	6	869	6	869	5	832	6	869
III.	Native Hawaiians	5	1,229	5	1,229	5	1,176	5	1,229
IV.	Special	12	2,918	12	2,918	11	2,793	12	2,918
	Total	210	27,300	219	27,300	209	26,126	219	27,300

Training and Technical Assistance

Authorizing Legislation - Section 814 of the Native American Programs Act of 1974, as amended.

1987 Authorization: Legislation expires September 30, 1986. Extension legislation to be proposed.

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$1,000,000	$957,000	$85,000	$- - -	-$85,000

Purpose and Method of Operations - The purpose of training and technical assistance is to assist public and private Native American organizations in developing, conducting and administering projects to carry out locally determined social and economic development strategies. The funding mechanisms used by the Administration for Native Americans include grants, contracts for the procurement of training and technical assistance and interagency agreements.

The Administration for Native Americans provides technical assistance in a manner which enhances local decision-making and control to insure that local priorities and needs are addressed and a basis is provided for achieving self-sufficiency. Funding levels for the last five years for Training and Technical Assistance have been as follows:

1982	$1,000,000
1983	$1,000,000
1984	$1,000,000
1985	$1,000,000
1986	$ 85,000

Rationale for the Budget Request - In fiscal year 1987 no new budget authority is requested for training and technical assistance. This is consistent with the Administration's policy to target funding to direct services. Financial assistance grants may be used for training and technical assistance activities.

Research, Demonstration and Evaluation

Authorizing legislation - Section 814 of the Native American Program Act of 1974, as amended.

1987 Authorization: Legislation expires September 30, 1986. Extension legislation to be proposed.

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$700,000	$670,000	- - -	- - -	- - -

Purpose and Method of Operations - The research, demonstration, and evaluation program provides assistance to public and private agencies to test or assist in the development of new approaches and methods that will further the social and economic development of local Native American communities. These activities are funded by grants, contracts and interagency agreements.

1982	$700,000
1983	$700,000
1984	$700,000
1985	$700,000
1986	$ - - -

Rationale for the Budget Request - In fiscal year 1987 no new budget authority is requested for research, demonstration, and evaluation. This is consistent with the Administration's policy to reduce funding in areas which do not provi direct services.

PROGRAM DIRECTION

	1986 Apropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
Amount	$61,113,000	$58,485,000	$58,441,000 a/	$60,169,000	+$1,728,000
FTE	1,151	1,151	1,125	1,105	-20

a/ Includes amount being withheld pursuant to P.L. 99-190.

Purpose and Method of Operations - Salaries and related expenses for Human Developmetn Services staff are included in the Program Direction account. Allocations for compensation and benefits, travel, supplies, equipment, and other costs are made by the Office of Management Services to all staff and regional offices within the Office of Human Development Services.

Rationale for the Budget Request - The 1987 budget request of $60,169,000 is a net increase of $1,728,000 over the 1986 Revised Estimate. The Office of Human Development Services will continue activities to improve the management and operation of programs for which it is responsible. This request will:

- Support 1,105 full-time equivalent positions and related expenses. This is a decrease of 20 full-time equivalent positions from the 1986 revised estimate of 1,125.

- Provide standard operating expenses including built-in increases for telecommunications; within-grade increases and restoration of funds cut under sequestering.

- Reflect reduced costs for rental space.

- Continue to provide data processing, word processing and management systems for the Office of Human Development Services

SUMMARY OF CHANGES

1986 Revised Estimate	$58,441,000
1987 Request	60,169,000
Net change	+$ 1,728,000

	1986 Base	Change from Base
Increases:		
1. Increase in average salary and benefits due to loss of lower grade personnel	$43,394,000	+$904,900
2. Within-grade increases	43,394,000	+ 432,000
3. Restoration of sequestering for travel	846,000	+ 650,000
4. Increase associated with changes in telecommunication requirements	1,807,964	+ 150,000
5. Restoration of sequestering for supplies and equipment	375,000	+ 576,000
6. Restoration of sequestering for training activities		+ 110,000
Subtotal, increases		+2,822,900
Decreases:		
1. Reduction in FTE ceiling		
amount	$43,394,000	- 766,400
FTE	1,125	-20
2. Reduction in non-ceiling personnel	284,000	- 124,500
3. Reduction in rental costs associated with reduced square footage	4,535,000	- 204,000
Subtotal, decreases		-$1,094,900 (-20 FTE)
Net change		+$1,728,000 (-20 FTE)

Detail of Permanent Positions

	1985 Actual	1986 Estimate	1987 Estimate
Executive Level IV	1	1	1
Subtotal	1	1	1
ES-05	3	3	3
ES-04	3	3	3
ES-03	2	2	2
ES-02	1	1	1
Subtotal	9	9	9
GS-18	1	1	1
GM/GS-15	73	70	71
GM/GS-14	136	133	131
GM/GS-13	349	339	340
GS-12	218	213	213
GS-11	57	57	55
GS-10	3	3	3
GS-9	35	34	33
GS-8	18	18	18
GS-7	71	69	71
GS-6	69	68	69
GS-5	63	62	63
GS-4	22	22	22
GS-3	4	4	4
GS-2	1	1	1
Subtotal	1,120	1,120	1,095
Total permanent positions	1,130	1,104	1,105
Unfilled positions, end-of-year	132	21	0
Total permanent employment, end-of-year	1,262	1,125	1,105

OFFICE OF HUMAN DEVELOPMENT

Estimate for Consultant Services

(in thousands of dollars)

Account Title	Type 1/	Source of Funds 2/	1985	Obligations 1986	1987
Evaluation					
Human Development Services	C	A	775	698	698
Non-Evaluation					
Human Development Services	P	A	146	131	131
Human Development Services	C	A	1475	1338	1338
Human Development Services	A	A	45	40	40
Sub-total, Non-Evaluation			1666	1509	1509
Total consulting services			2441	2207	2207
TOTALS:					
Contractual Services			2250	2036	2036
Personnel Appointments			146	131	131
Advisory Committee Expenses			45	40	40
Total, consulting services			2441	2207	2207

1/ Indicate C for contractual services, P for personnel appointments, or A for advisory committee obligations.

2/ Indicate A for appropriated funds or N or non-appropriated funds.

Human Development Services program activities have specific and identifiable needs for consulting services. By definition, consulting services are intended to provide services of a purely advisory nature relating to the governmental functions of agency administration and management and agency program management. Such services include evaluation projects and advisory committees.

Examples of these consulting services are:

Administration on Children, Youth and Families

Head Start - Home Based Evaluation.

Administration on Aging

Exploration Assessment of the relationship between Social Services for the Elderly provided through Title IV-B for the Older American's Act and SSBG.

Salaries and Expenses

Services of appointive consultants and contractors to provide advice of unique program and general administrative areas where in-house expertise is not available.

OFFICE OF HUMAN DEVELOPMENT

Estimate for Related Services

(in thousands of dollars)

Account Title	Type 1/	Source of Funds 2/	1985	Obligations 1986	1987
Human Development Services	SA	A	1986	1697	1697

1/ MP for management and professional services, SA for special studies and analysis, RD for management and support sservices for research and development activities.

2/ A for appropriated funds.

Narrative Summary Statements

The Office of Human Development Services has justified needs for various types of related services in the special studies and analysis area to assist in the accomplishment of specific goals and objectives. Examples of these related services for the current year are: Head Start program information report; Headstart Employee Mobility and Qualifications study; and the National Incidence Study of Child Abuse and Neglect.

Head Start
State Allocations

State	1985 Actual	1986 Estimate	1987 Estimate
Total	$1,046,959,000	$1,013,424,000	$1,046,459,000
Alabama	21,376,133	20,711,097	21,376,133
Alaska	2,242,671	2,172,906	2,242,671
Arizona	9,037,726	8,756,519	9,037,726
Arkansas	10,909,020	10,569,931	10,909,020
California	99,496,463	96,398,576	99,496,463
Colorado	9,606,918	9,307,497	9,606,918
Connecticut	9,910,485	9,602,349	9,910,485
Delaware	2,198,697	2,130,339	2,198,697
Dist. of Columbia	6,174,611	5,982,023	6,174,611
Florida	28,873,182	27,974,240	28,873,182
Georgia	24,822,375	24,049,059	24,822,375
Hawaii	3,929,632	3,807,884	3,929,632
Idaho	2,875,300	2,786,290	2,875,300
Illinois	52,866,457	51,220,730	52,866,457
Indiana	14,525,084	14,072,281	14,525,084
Iowa	7,659,090	7,419,993	7,659,090
Kansas	6,554,286	6,349,549	6,554,286
Kentucky	20,259,751	19,629,439	20,259,751
Louisiana	21,993,563	21,308,769	21,993,563
Maine	4,370,895	4,235,026	4,370,895
Maryland	13,929,304	13,495,566	13,929,304
Massachusetts	23,040,712	22,323,409	23,040,712
Michigan	43,103,561	41,762,247	43,103,561
Minnesota	10,827,275	10,489,802	10,827,275
Mississippi	51,874,113	50,260,141	51,874,113
Missouri	18,158,037	17,592,980	18,158,037
Montana	2,615,332	2,534,641	2,615,332
Nebraska	4,201,254	4,069,814	4,201,254
Nevada	1,480,697	1,434,315	1,480,697
New Hampshire	1,990,641	1,928,940	1,990,641

Head Start
State Allocations

State	1985 Actual	1986 Estimate	1987 Estimate
New Jersey	30,814,901	29,355,824	30,814,901
New Mexico	6,182,774	5,989,925	6,182,774
New York	77,272,388	74,867,672	77,272,388
North Carolina	22,082,675	21,395,029	22,082,675
North Dakota	1,518,482	1,470,891	1,518,482
Ohio	42,697,675	41,367,349	42,697,675
Oklahoma	12,538,005	12,147,789	12,538,005
Oregon	8,282,041	8,024,016	8,282,041
Pennsylvania	44,385,418	43,004,085	44,385,418
Rhode Island	3,402,407	3,296,530	3,402,407
South Carolina	13,683,214	13,257,351	13,683,214
South Dakota	2,405,137	2,330,173	2,405,137
Tennessee	18,515,830	17,939,323	18,515,830
Texas	47,155,713	45,687,730	47,155,713
Utah	4,323,035	4,188,698	4,323,035
Vermont	2,070,686	2,006,424	2,070,686
Virginia	14,835,745	14,373,001	14,835,745
Washington	11,568,581	11,208,386	11,568,581
West Virginia	8,921,212	8,643,732	8,921,212
Wisconsin	15,293,545	14,817,152	15,293,545
Wyoming	1,384,251	1,340,955	1,384,251
Puerto Rico	42,812,188	41,478,198	42,812,188
Virgin Islands	2,193,668	2,125,471	2,193,668
Other Pacific [1]	3,065,345	2,970,593	3,065,345
Amer. Indian Pro.	37,428,528	35,819,101	37,428,528
Migrant Programs	38,878,858	37,206,110	38,878,858
Special Projects	2,343,433	2,236,140	2,343,433

[1] In FY 1986 and FY 1987, some of these funds will be provided by the Department of the Interior, in conjunction with the enactment of the Compact of Free Association.

Runaway and Homeless Youth
State Allocations

State	1985 Actual	1986 Estimate	1987 Estimate
	$18,140,383	$18,300,000	$19,000,000
Alabama	324,809	324,811	328,879
Alaska	43,332	45,872	47,999
Arizona	234,669	242,666	253,918
Arkansas	182,895	184,902	193,475
California	1,843,023	1,885,497	1,973,864
Colorado	238,045	242,383	253,622
Connecticut	216,562	218,562	221,623
Delaware	45,110	45,110	45,628
District of Columbia	37,986	37,943	39,702
Florida	690,782	710,509	743,977
Georgia	456,707	462,113	483,540
Hawaii	77,911	81,266	85,034
Idaho	86,478	91,177	95,404
Illinois	880,595	880,595	915,527
Indiana	433,107	433,107	447,690
Iowa	223,770	223,770	231,993
Kansas	182,051	184,619	193,179
Kentucky	292,351	292,351	305,472
Louisiana	381,267	383,962	401,765
Maine	86,621	86,929	90,960
Maryland	312,020	312,020	321,471
Massachusetts	397,014	397,014	404,136
Michigan	723,648	723,648	736,273
Minnesota	319,417	319,417	332,730
Mississippi	224,821	225,259	236,141
Missouri	369,947	372,069	389,321
Montana	65,842	66,825	69,924
Nebraska	124,369	125,439	131,255
Nevada	64,717	66,259	69,331
New Hampshire	70,626	71,356	74,664
New Jersey	533,102	533,102	549,316
New Mexico	121,274	123,457	129,181
New York	1,266,801	1,266,801	1,300,404
North Carolina	450,485	453,336	474,356
North Dakota	55,150	56,065	58,665

State	1985 Actual	1986 Estimate	1987 Estimate
Ohio	835,531	835,531	853,010
Oklahoma	258,305	259,888	272,880
Oregon	199,215	200,759	210,068
Pennsylvania	839,143	839,143	862,195
Rhode Island	64,967	64,967	66,961
South Carolina	260,837	262,487	274,658
South Dakota	57,401	58,330	61,035
Tennessee	353,704	353,704	368,877
Texas	1,305,992	1,334,472	1,397,290
Utah	171,359	176,974	185,179
Vermont	39,393	39,642	41,480
Virginia	404,231	404,349	423,098
Washington	322,740	328,180	343,397
West Virginia	151,944	151,944	157,328
Wisconsin	368,142	368,142	378,655
Wyoming	45,020	45,305	47,406
Puerto Rico	350,093	353,664	370,063
Virgin Islands	12,631	13,025	13,629
American Samoa	4,502	4,814	5,037
Guam	12,632	13,875	14,518
Trust Territories 1/	18,046	18,046	20,148
Northern Mariana Islands	2,251	2,548	2,667

1/ In FY 1986 and FY 1987, some of these funds will be provided by the Department of Interior, in conjunction with the enactment of the Compact of Free Association.

Child Abuse and Neglect State Grants
State Allocations

State	1985 Actual	1986 Estimate 1/	1987 Estimate
Total	$12,000,000	$11,441,000	$-0-
Alabama	234,522	198,705	
Alaska	75,515	71,703	
Arizona	188,188	164,811	
Arkansas	157,874	137,481	
California	1,131,116	942,496	
Colorado	190,183	164,677	
Connecticut	175,772	150,208	
Delaware	75,684	70,631	
Dist. of Columbia	61,237	67,952	
Florida	457,647	386,395	
Georgia	319,946	268,637	
Hawaii	97,058	88,449	
Idaho	102,689	93,138	
Illinois	566,018	463,963	
Indiana	0	252,426	
Iowa	180,410	154,897	
Kansas	157,207	137,347	
Kentucky	222,164	188,122	
Louisiana	275,541	231,661	
Maine	100,873	91,128	
Maryland	230,957	195,356	
Massachusetts	279,186	232,733	
Michigan	468,096	382,912	
Minnesota	237,914	200,447	
Mississippi	167,566	156,773	
Missouri	209,278	226,035	
Montana	88,775	81,617	
Nebraska	123,083	109,348	
Nevada	74,580	81,349	
New Hampshire	91,598	83,760	

	1985 Actual	1986 Estimate	1987 Estimate
New Jersey	360,879	298,378	
New Mexico	121,423	108,410	
New York	585,735	637,988	
North Carolina	316,131	264,484	
North Dakota	82,478	76,526	
No. Marianas Is.	51,133	51,206	
Ohio	280,029	435,695	
Oklahoma	202,124	173,385	
Oregon	167,490	144,984	
Pennsylvania	0	439,848	
Rhode Island	87,783	80,277	
South Carolina	203,614	174,189	
South Dakota	83,641	77,598	
Tennessee	257,968	216,791	
Texas	820,058	681,796	
Utah	150,754	133,730	
Vermont	73,203	68,756	
Virginia	284,945	241,307	
Washington	187,537	205,270	
West Virginia	138,479	121,137	
Wisconsin	264,435	221,212	
Wyoming	76,508	71,435	
American Samoa	52,581	52,277	
Guam	56,236	56,564	
Puerto Rico	238,370	217,327	
Trust Territory 2/	58,868	59,110	
Virgin Islands	56,921	56,163	

1/ Distribution of funds estimated on assumption that all States and Territories will participate.

2/ If eligible, in FY 1986 and FY 1987, some of these funds will be provided by the Department of the Interior, in conjunction with the enactment of the Compact of Free Association.

Administration on Aging
Title III-B Supportive Services and Senior Centers
State Allocations

	1985 Actual	1986 Current Estimate	1987 Estimate**
Total 57 "States"	$265,000,000	$253,605,000	$265,000,000
Alabama.............	4,263,077	4,079,587	4,249,656
Alaska	1,386,245	1,325,163	1,325,000
Arizona.............	3,209,515	3,072,866	3,358,417
Arkansas............	2,945,226	2,818,481	2,892,356
California..........	24,347,688	23,304,833	24,913,150
Colorado............	2,572,634	2,462,431	2,587,121
Connecticut	3,706,937	3,547,556	3,696,610
Delaware............	1,391,760	1,331,006	1,325,000
District of Columbia	1,392,499	1,331,671	1,325,000
Florida.............	16,236,983	15,542,581	16,772,389
Georgia.............	5,180,031	4,957,617	5,252,465
Hawaii..............	1,394,874	1,334,557	1,325,000
Idaho...............	1,395,783	1,335,241	1,325,000
Illinois............	12,229,877	11,703,627	12,169,222
Indiana.............	5,707,996	5,462,822	5,723,856
Iowa................	3,608,843	3,453,369	3,528,211
Kansas..............	2,900,730	2,775,778	2,829,904
Kentucky............	3,928,754	3,759,712	3,902,292
Louisiana...........	3,978,027	3,806,930	3,970,049
Maine...............	1,415,679	1,354,728	1,332,837
Maryland	4,115,944	3,939,478	4,190,972
Massachusetts.......	6,929,233	6,631,153	6,887,847
Michigan	9,081,247	8,690,943	9,084,030
Minnesota...........	4,513,525	4,319,203	4,462,426
Mississippi.........	2,752,697	2,633,942	2,677,828
Missouri............	5,987,786	5,729,960	5,938,060
Montana.............	1,394,516	1,333,907	1,325,000
Nebraska............	1,948,247	1,864,239	1,850,688
Nevada..............	1,394,038	1,333,747	1,325,000
New Hampshire.......	1,396,512	1,336,004	1,325,000
New Jersey..........	8,598,031	8,228,656	8,665,052
New Mexico..........	1,399,090	1,339,038	1,325,000
New York............	20,556,339	19,670,762	20,352,370
North Carolina......	6,134,537	5,871,775	6,276,474
North Dakota........	1,393,387	1,332,621	1,325,000

	1985 Actual	1986 Current Estimate	1987 Estimate**
Ohio....................	$11,547,730	$11,051,669	$11,595,515
Oklahoma................	3,588,201	3,433,695	3,552,783
Oregon..................	3,010,452	2,881,223	2,991,151
Pennsylvania............	15,051,611	14,404,582	15,090,255
Rhode Island............	1,399,186	1,338,840	1,325,000
South Carolina..........	3,028,564	2,898,670	3,065,645
South Dakota............	1,394,447	1,333,731	1,325,000
Tennessee...............	5,013,844	4,798,465	5,055,693
Texas...................	13,622,307	13,038,662	13,915,578
Utah....................	1,398,117	1,337,905	1,325,000
Vermont.................	1,390,910	1,329,995	1,325,000
Virginia................	5,186,788	4,964,751	5,324,968
Washington..............	4,351,037	4,164,294	4,382,555
West Virginia	2,346,800	2,245,656	2,280,212
Wisconsin...............	5,352,754	5,122,470	5,316,473
Wyoming.................	1,388,927	1,327,936	1,325,000
American Samoa..........	465,454	444,854	464,691
Guam....................	662,799	634,012	662,500
Puerto Rico.............	2,497,903	2,389,918	2,372,074
Trust Territory of the Pacific Islands. 1/	662,939	634,012	662,500
Virgin Islands..........	662,960	634,012	662,500
Northern Mariana Islands	187,983	179,664	165,625
Evaluations.............	0	0	0

** Based on U.S. Bureau of the Census 1984 population estimates and the provisions of Title III of the Older Americans Act. Final allotments may vary upon publication of 1985 population estimates by the Bureau of the Census.

1/ In FY 1986 and FY 1987, some of these funds will be provided by the Department of the Interior, in conjunction with the enactment of the Compact of Free Association.

Administration on Aging
Title III-C-1 Congregate Nutrition Services
State Allocations

	1985 Actual	1986 Current Estimate	1987 Estimate**
Total 57 "States"	$336,000,000	$321,522,000	$336,000,000
Alabama.............	5,406,476	5,167,764	5,383,432
Alaska	1,771,912	1,678,481	1,678,500
Arizona.............	4,075,415	3,892,458	4,254,417
Arkansas............	3,741,514	3,570,204	3,664,015
California..........	30,781,205	29,522,138	31,559,790
Colorado............	3,270,785	3,119,163	3,277,345
Connecticut	4,703,854	4,493,791	4,682,838
Delaware............	1,758,337	1,685,883	1,678,500
District of Columbia	1,779,813	1,686,725	1,678,500
Florida.............	20,534,203	19,688,998	21,247,135
Georgia.............	6,564,948	6,280,046	6,653,783
Hawaii..............	1,782,814	1,690,381	1,678,500
Idaho...............	1,783,962	1,691,248	1,678,500
Illinois............	15,451,119	14,825,840	15,415,879
Indiana.............	7,211,432	6,920,036	7,250,938
Iowa................	4,579,923	4,374,475	4,469,511
Kansas..............	3,685,299	3,516,109	3,584,902
Kentucky............	4,984,095	4,762,549	4,943,395
Louisiana...........	5,025,805	4,822,364	5,029,228
Maine...............	1,803,556	1,715,933	1,688,428
Maryland	5,220,589	4,990,276	5,309,091
Massachusetts.......	8,774,874	8,400,068	8,725,472
Michigan	11,493,710	11,009,394	11,507,581
Minnesota...........	5,702,347	5,471,308	5,652,968
Mississippi.........	3,498,275	3,336,432	3,392,252
Missouri............	7,585,458	7,258,444	7,522,290
Montana.............	1,761,819	1,689,557	1,678,500
Nebraska............	2,481,940	2,361,377	2,344,438
Nevada..............	1,761,215	1,689,355	1,678,500
New Hampshire.......	1,774,341	1,692,214	1,678,500
New Jersey..........	10,862,677	10,423,774	10,976,822
New Mexico..........	1,788,139	1,696,057	1,678,500
New York............	25,991,239	24,918,546	25,782,229
North Carolina......	7,750,320	7,438,094	7,950,989
North Dakota........	1,780,935	1,687,929	1,678,500

	1985 Actual	1986 Current Estimate	1987 Estimate**
Ohio	$14,609,843	$13,999,944	$14,689,111
Oklahoma	4,553,843	4,349,553	4,500,638
Oregon	3,823,920	3,649,686	3,789,167
Pennsylvania	19,016,072	18,247,390	19,116,222
Rhode Island	1,788,261	1,695,807	1,678,500
South Carolina	3,846,803	3,671,788	3,883,537
South Dakota	1,761,732	1,689,334	1,678,500
Tennessee	6,354,988	6,078,433	6,404,513
Texas	17,230,844	16,517,053	17,628,149
Utah	1,786,911	1,694,622	1,678,500
Vermont	1,757,264	1,684,602	1,678,500
Virginia	6,573,485	6,289,083	6,745,630
Washington	5,517,604	5,275,070	5,551,788
West Virginia	2,985,469	2,844,555	2,888,555
Wisconsin	6,783,164	6,488,880	6,734,868
Wyoming	1,754,759	1,681,993	1,678,500
American Samoa	588,050	563,311	588,667
Guam	837,374	802,936	839,250
Puerto Rico	3,176,371	3,027,305	3,004,925
Trust Territory of the Pacific Islands 1/	837,551	802,936	839,250
Virgin Islands	837,578	802,936	839,250
Northern Mariana Islands	258,038	227,372	209,812
Evaluations	395,731	270,000	300,000

** Based on U.S. Bureau of the Census 1984 population estimates and the provisions of Title III of the Older Americans Act. Final allotments may vary upon publication of 1985 population estimates by the Bureau of the Census.

1/ In FY 1986 and FY 1987, some of these funds will be provided by the Department of the Interior in conjunction with the enactment of the Compact of Free Association.

Administration on Aging
Title III-C-2 Home-Delivered Nutrition Services
State Allocations

	1985 Actual	1986 Current Estimate	1987 Estimate**
Total 57 "States"	$67,900,000	$64,980,300	$67,900,000
Alabama.............	1,092,313	1,045,298	1,088,874
Alaska	355,193	339,542	339,500
Arizona.............	822,362	787,350	860,515
Arkansas............	754,645	722,169	741,098
California..........	6,238,519	5,971,314	6,383,408
Colorado............	659,177	630,940	662,889
Connecticut	949,815	908,977	947,169
Delaware............	356,606	341,039	339,500
District of Columbia	356,795	341,209	339,500
Florida.............	4,160,344	3,982,420	4,297,529
Georgia.............	1,327,261	1,270,272	1,345,820
Hawaii..............	357,404	341,949	339,500
Idaho...............	357,637	342,124	339,500
Illinois............	3,133,618	2,998,778	3,118,076
Indiana.............	1,462,539	1,399,719	1,466,603
Iowa................	924,681	884,844	904,021
Kansas..............	743,244	711,228	725,096
Kentucky............	1,006,651	963,338	999,870
Louisiana...........	1,019,276	975,436	1,017,231
Maine...............	362,734	347,117	341,508
Maryland	1,054,613	1,009,398	1,073,838
Massachusetts.......	1,775,453	1,699,076	1,764,848
Michigan	2,326,855	2,226,849	2,327,569
Minnesota...........	1,156,484	1,106,694	1,143,392
Mississippi.........	705,314	674,886	686,130
Missouri............	1,534,229	1,468,167	1,521,488
Montana.............	357,312	341,782	339,500
Nebraska............	499,192	477,667	474,195
Nevada..............	357,189	341,741	339,500
New Hampshire.......	357,823	342,320	339,500
New Jersey..........	2,203,043	2,108,399	2,220,215
New Mexico..........	358,484	343,097	339,500
New York............	5,267,077	5,040,169	5,214,815
North Carolina......	1,571,831	1,504,504	1,608,198
North Dakota........	357,023	341,453	339,500

	1985 Actual	1986 Current Estimate	1987 Estimate**
Ohio....................	$2,958,834	$2,831,729	$2,971,077
Oklahoma................	919,392	879,803	910,317
Oregon..................	771,357	738,246	766,412
Pennsylvania............	3,856,620	3,690,834	3,866,523
Rhode Island............	358,508	343,046	339,500
South Carolina..........	775,998	742,716	785,499
South Dakota............	357,294	341,737	339,500
Tennessee...............	1,284,679	1,229,493	1,295,402
Texas...................	3,490,395	3,340,850	3,565,539
Utah....................	358,235	342,807	339,500
Vermont.................	356,388	340,780	339,500
Virginia................	1,328,992	1,272,100	1,364,398
Washington..............	1,114,851	1,067,002	1,122,926
West Virginia	601,312	575,397	584,250
Wisconsin...............	1,371,517	1,312,512	1,362,221
Wyoming.................	355,880	340,252	339,500
American Samoa..........	119,261	113,983	119,066
Guam....................	169,826	162,451	169,750
Puerto Rico.............	640,029	612,360	607,788
Trust Territory of the Pacific Islands..1/	169,862	162,451	169,750
Virgin Islands..........	169,868	162,451	169,750
Northern Mariana Islands	48,166	46,035	42,437
Evaluations.............	0	0	0

** Based on U.S. Bureau of the Census 1984 population estimates and the provisions of Title III of the Older Americans Act. Final allotments may vary upon publication of 1985 population estimates by the Bureau of the Census.

1/ In FY 1986 and FY 1987, some of these funds will be provided by the Department of the Interior, in conjunction with the enactment of the Compact of Free Association.

ADMINISTRATION ON DEVELOPMENTAL DISABILITIES

Basic Support

State Allocations

	1985 Actual	1986 Revised Estimate	1987 Estimate
Total 57 "States"	$50,250,000	$50,250,000	$50,250,000
Alabama............	$ 1,028,248	$ 1,012,207	$ 1,012,207
Alaska.............	301,258	300,000	300,000
Arizona............	518,860	538,360	538,360
Arkansas...........	592,416	585,580	585,580
California.........	3,911,427	3,918,951	3,918,951
Colorado...........	466,753	467,105	467,105
Connecticut........	538,032	521,846	521,846
Delaware...........	301,258	300,000	300,000
District of Columbia..........	301,258	300,000	300,000
Florida............	1,890,134	1,914,790	1,914,790
Georgia............	1,258,693	1,246,931	1,246,931
Hawaii.............	301,258	300,000	300,000
Idaho..............	301,258	300,000	300,000
Illinois...........	2,046,669	2,041,707	2,041,707
Indiana............	1,163,746	1,150,215	1,150,215
Iowa...............	610,316	615,951	615,951
Kansas.............	446,526	436,140	436,140
Kentucky...........	964,272	950,070	950,070
Louisiana..........	964,452	977,581	977,581
Maine..............	301,258	300,000	300,000
Maryland...........	732,247	725,751	725,751
Massachusetts......	1,090,642	1,054,546	1,054,546
Michigan...........	1,843,605	1,844,669	1,844,669
Minnesota..........	797,186	796,111	796,111
Mississippi........	719,657	726,270	726,270
Missouri...........	1,068,912	1,041,288	1,041,288
Montana............	301,258	300,000	300,000
Nebraska...........	322,749	316,111	316,111
Nevada.............	301,258	300,000	300,000
New Hampshire......	301,258	300,000	300,000

	1985 Actual	1986 Revised Estimate	1987 Estimate
New Jersey.........	1,281,159	1,250,241	1,250,241
New Mexico.........	314,235	314,919	314,919
New York...........	3,418,864	3,343,192	3,343,192
North Carolina.....	1,451,401	1,423,556	1,423,556
North Dakota.......	301,258	300,000	300,000
Ohio...............	2,239,648	2,218,445	2,218,445
Oklahoma...........	620,143	634,307	634,307
Oregon.............	501,664	506,106	506,106
Pennsylvania.......	2,529,867	2,492,381	2,492,381
Rhode Island.......	301,258	300,000	300,000
South Carolina.....	801,455	795,144	795,144
South Dakota.......	300,000	300,000	300,000
Tennessee..........	1,138,814	1,123,409	1,123,409
Texas..............	2,710,823	2,746,427	2,746,427
Utah...............	352,496	364,820	364,820
Vermont............	301,258	300,000	300,000
Virginia...........	1,080,839	1,052,234	1,052,234
Washington.........	722,520	721,508	721,508
West Virginia......	580,628	566,282	566,282
Wisconsin..........	990,797	976,879	976,879
Wyoming............	301,258	300,000	300,000
American Samoa.....	160,671	160,000	160,000
Guam...............	160,671	160,000	160,000
Puerto Rico........	1,680,064	1,753,200	1,753,200
Trust Territories of the Pacific....1/	*	244,770	244,770
Virgin Islands.....	160,671	160,000	160,000
Northern Mariana Islands..........	160,671	160,000	160,000

*Minimum territorial entitlement in Fiscal Year 1985 was $160,000 but the Trust Territories did not participate in the Developmental Disabilities Program. Funds were redistributed and above amounts reflect initial allocation and any redistributed funds.

1/ Assuming participation in FY 1986 and FY 1987, some of these funds will be provided by the Department of the Interior, in conjunction with the enactment of the Compact of Free Association.

ADMINISTRATION ON DEVELOPMENTAL DISABILITIES

Protection and Advocacy

State Allocations

	1985 Actual	1986 Revised Estimate	1987 Estimate
Total 57 "States"	$13,750,000	$13,750,000	$13,750,000
Alabama............	$ 246,943	$ 242,773	$ 242,773
Alaska.............	151,065	150,000	150,000
Arizona............	150,000	150,000	150,000
Arkansas...........	151,065	150,000	150,000
California.........	940,544	941,074	941,074
Colorado...........	151,065	150,000	150,000
Connecticut........	151,065	150,000	150,000
Delaware...........	151,065	150,000	150,000
District of Columbia..........	151,065	150,000	150,000
Florida............	454,413	459,831	459,831
Georgia............	300,307	299,244	299,244
Hawaii.............	151,065	150,000	150,000
Idaho..............	151,065	150,000	150,000
Illinois...........	491,673	489,898	489,898
Indiana............	279,573	276,007	276,007
Iowa...............	155,794	154,164	154,164
Kansas.............	151,065	150,000	150,000
Kentucky...........	231,515	227,793	227,793
Louisiana..........	231,636	234,502	234,502
Maine..............	151,065	150,000	150,000
Maryland...........	175,965	174,195	174,195
Massachusetts......	261,944	252,911	252,911
Michigan...........	442,757	442,462	442,462
Minnesota..........	191,515	191,046	191,046
Mississippi........	171,652	174,244	174,244
Missouri...........	256,762	249,803	249,803
Montana............	150,000	150,000	150,000
Nebraska...........	150,000	150,000	150,000
Nevada.............	150,000	150,000	150,000
New Hampshire......	151,065	150,000	150,000

	1985 Actual	1986 Revised Estimate	1987 Estimate
New Jersey.........	307,721	299,898	299,898
New Mexico.........	151,065	150,000	150,000
New York...........	820,860	801,602	801,602
North Carolina.....	348,661	341,548	341,548
North Dakota.......	151,065	150,000	150,000
Ohio...............	534,116	532,130	532,130
Oklahoma...........	151,065	154,573	154,573
Oregon.............	151,065	150,000	150,000
Pennsylvania.......	607,437	597,652	597,652
Rhode Island.......	151,065	150,000	150,000
South Carolina.....	192,564	190,814	190,814
South Dakota.......	151,065	150,000	150,000
Tennessee..........	273,568	269,515	269,515
Texas..............	651,616	659,527	659,527
Utah...............	150,000	150,000	150,000
Vermont............	151,065	150,000	150,000
Virginia...........	259,660	252,461	252,461
Washington.........	176,546	175,623	175,623
West Virginia......	161,912	159,646	159,646
Wisconsin..........	237,962	234,309	234,309
Wyoming............	151,065	150,000	150,000
American Samoa.....	80,568	80,000	80,000
Guam...............	80,568	80,000	80,000
Puerto Rico........	402,445	420,755	420,755
Trust Territories of the Pacific...1/	*	80,000	80,000
Virgin Islands.....	80,000	80,000	80,000
Northern Mariana Islands...........	80,568	80,000	80,000

*Minimum territorial entitlement in Fiscal Year 1985 was $80,000 but the Trust Territories did not participate in the Developmental Disabilities Program. Funds were redistributed and above amounts reflect initial allocation and any redistributed funds.

1/ Assuming participation in FY 1986 and FY 1987, some of these funds will be provided by the Department of the Interior, in conjunction with the enactment of the Compact of Free Association.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Human Development Services

Family Social Services

FY 1987 Budget — Page No.

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Appropriation Estimate
Office of Human Development Services
Family Social Services

For carrying out parts B and E of Title IV and section 1110 of the Social Security Act, and Title II of Public Law 95-266 (adoption opportunities) [$790,237,000.] *$817,837,000; of which not to exceed $1,400,000 will be available to carry out Tittle II of Public Law 95-266 (adoption opportunities)*[1]*: Provided, That for purposes of this appropriation, references to fiscal year 1985 in sections 474(b) and 474(c) of the Social Security Act, and in sections 102(a)(1) and 102(c) of Public Law 96-272, are deemed to be references to fiscal year 1987, and the term "$266,000,000" in section 474(b)(2)(A)(i) of the Social Security Act is deemed to read "$200,000,000"*[2]*: Provided further, That allotments made under section 474(b)(3)(A) for fiscal year 1987 shall equal the lesser of 105 percent of the allotment for fiscal year 1986 or the amount of the allotment for fiscal year 1986 increased by the ratio of (i) the Consumer Price Index prepared by the Department of Labor, and used in determining cost-of-living adjustments under section 215(i) of the Act for the second quarter of fiscal year 1986, to (ii) such index for the second quarter of fiscal year 1985. (Department of Health and Human Services Appropriation Act,* *1986)*3/. [*Provided further,* That notwithstanding any other provision of this Act, amounts otherwise provided by this Act for the following accounts and activities are reduced by the following amounts:

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Family Social Services

"Child welfare services authorized by Title IV, part B of the Social Security Act", $13,000,000.] *(Department of Labor, Health and Human Services and Education and Related Agencies Appropriation Act, 1986.)* 4/

Explanation of Language Change

1/ Language is added to limit the amounts made available for adoption opportunities.

2/ Language is added to reduce from $266,000,000 to $200,000,000, the level of appropriations for Child Welfare Services needed to "trigger" an automatic cap on Foster Care expenditures.

3/ Language is added to determine States' allotments when the automatic cap has been triggered.

4/ Language is deleted which reduced the initial 1986 appropriation.

FAMILY SOCIAL SERVICES

Language Analysis

Language Provision	Explanation
...of which not to exceed $1,400,000 will be available to carry out Title II of Public Law 95-266 (adoption opportunities:	Language is added to limit the amount made available for adoption opportunities.
Provided, That for purposes of this appropriation, references, to fiscal year 1985 in sections 474(b), 474(c) of the Social Security Act, and in sections 102(a)(1) and 102(c) Public Law 96-272, are Public Law 96-272, and is deemed to be references to fiscal year 1987, and the term "$266,000,000' in section 474(b)(2)(A)(i) of the Social Security Act is deemed to read "$200,000,000":	Language is added to reduce the level of appropriations for Child Welfare Services needed to "trigger" an automatic cap on Foster Care expenditures. This language is added based on program experience since the enactment of Public Law 92-272.
Provided further, That allotments made under Section 474(b)(3)(A) for fiscal year 1987 shall equal the lesser of 105 percent of the allotment for fiscl year 1986 or the amount of the allotment for fiscal year 1986 increased by the ratio of (i) the Consumer Price Index prepared by the Department of Labor, and used in determining cost-of-living adjustments under Section 215(i) of the Act for the second quarter of fiscal year 1986, to (ii) such index for the second quarter of fiscal year 1985. (Department of Health and Human Services Appropriation Act, 1986).	Language is added to update the base year and the growth factor used to determine States' allotments in years in which the automatic capy has been triggered. The addition of this language is based on program experience since 1980 where Foster Care was established as a separate entity by Public Law 96-272.

[Provided further, That not withstanding any other provision of this Act, amounts otherwise provided by this Act for the following accounts and activities are reduced by the following amounts: DEPARTMENT OF HEALTH AND HUMAN SERVICES

Family Social Services

"Child welfare services authorized by Title IV part B of the Social Security Act", $13,000,000.] (Department of Labor, Health and Human Services, and Education and Related Agencies Appropriation Act, 1986.)

Language is which reduced the fiscal year 1986 appropriation is deleted because it is not relevant to the 1987 request.

Family Social Services

Amounts Available for Obligations

	1985 Actual	1986 Revised Estimate	1987 Estimate
Appropriation............	$770,397,000	$754,673,000	$817,837,000
Offsetting collections from: Federal Funds..........	130,000	- - -	- - -
Unobligated balance lapsing................	-411,000	-145,000	- - -
Total obligations	$770,116,000	$754,528,000	$817,837,000

Family Social Services

Summary of Changes

1986 Budget Authority	$777,237,000
1986 Sequester Order	-16,000,000
Total Estimated after sequestering	760,830,000
1987 Revised estimate	754,529,000
1987 Estimate	817,837,000
Net Change	+ $63,309,000

	1986 Amount	Change from Base Amount
Increases:		
Program:		
1. Increase to pay estimate claims under the Foster Care Program	$501,580,000	+$ 42,730,000
2. Increase to pay estimated claims under the Adoption Assistance Program	41,391,000	+18,513,000
3. Increase to restore Child Welfare Services to the level requested in 1986 and appropriated in 1985	198,099,000	+1,901,000
4. Increase to restore Child Welfare Training to the level appropriated in 1985 and requested in 1986	3,658,000	+165,000
5. Increase for Social Services Research, a new line item	- - -	+2,400,000
Total increase		+$65,709,000
Decreases:		
Program		
1. Reduction in Child Welfare Research and Demonstration to support Social Services Research	8,400,000	-2,400,000
Net change		+$63,309,000

Family Social Services

Budget Authority by Activity
(dollars in thousands)

	1985 Actual	1986 Appropriation	1986 Available After Sequestering	Current Estimate	1987 Estimate
1. Foster Care..................	$517,223 a/	$507,641	$501,580	$501,580	$544,310
2. Adoption Assistance.................	35,351 b/	41,948	41,391	41,391	59,904
3. Child Welfare Services....................	200,000	207,000	198,099	198,099	200,000
4. Child Welfare Training.....................	3,823	3,823	3,658	3,658	3,823
5. Child Welfare Research, anu Demonstration...........	12,000 c/	11,825	11,317	8,400 d/	6,000
6. Adoption Opportunuties...............	2,000	5,000	4,785	1,400 e/	1,400
7. Social Services Research....................	- - - f/	- - - f/	- - - f/	- - - f/	2,400
Total	$770,397	$777,237	$760,830	$754,528	$817,837

a/ Includes an enacted supplemental of $56,944,000.
b/ Includes an enacted supplemental of $22,551,000.
c/ Does not reflect withholding of $175,000 pursuant to P.L. 98-473.
d/ Reflects withholding of $145,000 in accordance with Section 515 P.L. 99-190, and a proposed rescission of $2,772,000.
e/ Reflects a proposed rescission of $3,385,000.
f/ Similar activities carried out with Child Welfare Research and Demonstration resources.

Family Social Services

Budget Authority by Object

	1986 Appropriation	1986 Estimate 1/	1987 Estimate	Increase or Decrease
Grants, subsidies and contributions	$777,237,000	$754,528,000	$817,837,000	+$63,309,000

1/ Reflects withholding of $145,000 in accordance with Section 515 P.L. 99-190, sequester of $16,407,000 pursuant to P.L. 99-177, and proposed rescission of $6,157,000.

Significant Items

Appropriation Committee Reports

1986 Conference Report

Adoption Opportunities

1. The conferences are agreed that $3,000,000 shall be available under Title II of Public Law 95-266 for the recruitment and outreach of families to adopt special needs children, including minority children, and for the training of personnel to recruit and work with such families.	1. The Department proposed to rescind the increased appropriation.

Family Social Services

Authorizing Legislation

	1986 Amount Authorized	1986 Revised Estimate	1987 Amount Authorized	1987 Budget Request
Foster Care (Social Security Act, Title IV-A and IV-E)	Indefinite	501,580,000 a/	Indefinite	544,310,000
Adoption Assistance (Social Security Act, as amended, Title IV-E)	Indefinite	41,391,000 b/	Indefinite	59,904,000
Child Welfare Services (Social Security Act, Title IV, Part B, Section 420)	266,000,000	198,099,000 c/	266,000,000	200,000,000
Child Welfare Training (Social Security Act, as amended, Section 426)	Indefinite	3,658,000 d/	Indefinite	3,823,000
Child Welfare Research and Demonstration (Section 426 of the Social Security Act, as amended)	Indefinite	8,400,000 e/	Indefinite	6,000,000
Adoption Opportunities (Section 204 of the Child Abuse Prevention and Treatment and Adoption Reform Act of 1978, as amended)	5,000,000	1,400,000 f/	5,000,000	1,400,000

	1986 Amount Authorized	1986 Revised Estimate	1987 Amount Authorized	1987 Budget Request
Social Services Research (Section 1110 of the Social Security Act)	Indefinite	- - - g/	Indefinite	2,400,000
Total Appropriation		$754,528,000		$817,837,000
Total Appropriation Against Definite Authorization	$271,000,000	$199,499,000	$271,000,000	$201,400,000

a/ Reflects a reduction of $6,061,000 pursuant to P.L. 99-177.

b/ Reflects a reduction of $557,000 pursuant to P.L. 99-177.

c/ Reflects a reduction of $8,901,000 pursuant to P.L. 99-177.

d/ Reflects a reduction of $165,000 pursuant to P.L. 99-177

e/ Reflects withholding of $145,000 in accordance with Section 515 of P.L. 99-177; a reduction of $508,000 pursuent to P.L. 99-177; and a proposed rescission of $2,772,000.

f/ Reflects a reduction of $215,000 pursuant to P.L. 99-177 and a proposed rescission of $3,385,000.

g/ Similar activities carried out with funds appropriated under Child Welfare Research and Demonstration.

Family Social Services

Table of Estimates and Appropriations

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1983	$380,120,000	$410,920,000	$572,669,000	$572,669,000
1984	601,496,000	617,231,000	631,513,000	625,905,000
1984 Supplementals	43,200,000	43,200,000	60,000,000	60,000,000
1985	641,902,000	651,902,000	690,902,000	690,902,000
1985 Supplementals	79,495,000	79,495,000	79,495,000	79,495,000
1985 Rescission	-396,000	---	---	---
1986	740,994,000	745,019,000	810,412,000	777,092,000 a/
1986 Sequestering	-16,407,000			
1986 Rescissions	-6,157,000			
1987	817,837,000			

a/ Reflects withholding of $145,000 pursuant to P.L. 99-190.

Family Social Services

Justification

Account Summary

	1986 Revised Estimate	1987 Estimate	Increase or Decrease
Foster Care..............	501,580,000 a/	544,310,000	+42,730,000
Adoption Assistance...............	41,391,000 b/	59,904,000	+18,513,000
Child Welfare Services.........	198,099,000 c/	200,000,000	+1,901,000
Child Welfare Training.........	3,658,000 d/	3,823,000	+165,000
Child Welfare Research and Demonstration............	8,400,000 e/	6,000,000	-2,400,000
Adoption Opportunities............	1,400,000 f/	1,400,000	---
Social Services Research.................	- - - g/	2,400,000	+2,400,000
Total Budget Authority............	$754,528,000	$817,837,000	+$63,309,000

a/ Reflects a reduction of $6,061,000 pursuant to P.L. 99-177.

b/ Reflects a reduction of $557,000 pursuant to P.L. 99-177.

c/ Reflects a reduction of $8,901,000 pursuant to P.L. 99-177.

d/ Reflects a reduction of $165,000 pursuant to P.L. 99-177.

e/ Reflects withholding of $145,000 pursuant to Section 515 of P.L. 99-190; a reduction of $508,000 pursuant to P.L. 99-177; and a proposed rescission of $2,772,000.

f/ Reflects a reduction of $215,000 pursuant to P.L. 99-177 and a proposed rescission of $3,385,000.

g/ Similar activities carried out with funds appropriated for Child Welfare Research and Demonstration.

General Statement

Family Social Services programs help States serve children whose family problems make it difficult for them to remain in their own homes. The emphasis of these programs under the Reagan Administration has been on bringing permanency to the lives of the children served. The focus has been reducing the numbers of children in substitute care, by keeping or returning them to their families, or finding them adoptive homes. Three types of direct services programs support State efforts:

- Foster Care - This entitlement program assists States with the cost of maintaining eligible children in foster care and with related administrative and training costs.

- Adoption Assistance - This entitlement program helps States to subsidize the maintenance costs of children adopted under certain circumstances. Most of these children have special needs that make adoptive placements difficult. This program will remain open-ended in Fiscal Year 1987.

- Child Welfare Services - This program's focus is on keeping families together. States provide services so that, if possible, children will not have to be removed from their homes and placed in foster care or with adoptive families. Where it is not possible to maintain the family intact, this program supports both services to reunify the family at the earliest possible time, and to develop alternative placements.

This appropriation also funds four indirect service programs:

- Child Welfare Training - Well trained caseworkers at State level can better serve the children for whom they are responsible. To this end, grants are made to upgrade the skills of child welfare workers, supervisors and administrators through programs focused specifically on child welfare issues and services delivery. Also provided is financial assistance for individuals currently employed and degree candidates concentrating in child welfare services.

- Child Welfare Research and Demonstrations - This program funds activities to strengthen the effectiveness of State services and service systems which help children, youth and families.

- Adoption Opportunities - This program supports activities and technical assistance to remove barriers to the adoption of children, particularly those with special needs.

- Social Services Research - This program supports projects designed to improve services and services systems which assist the various populations served by the Office of Human Development Services.

Effect of Proposed Legislation

The President's appropriation request of $817,837,000 for this account includes current law adjusted by a net decrease of $38,690,000, assuming congressional action on proposed legislation as follows:

Current Law Appropriation Request	$856,527,000
Impact of legislative change: Estimated savings from reducing to $200,000,000 the level of Child Welfare Services appropriations needed to "trigger" an automatic cap on Foster Care; reducing to one year States' time to submit claims; and setting 1984 base year adjusted by the lower of 5 percent or the as the CPI for the purposes of calculating allotments in years when the cap is triggered.	- 38,690,000
Total Appropriation Request in President's Budget	$817,837,000

Program Accomplishments

Accomplishments in programs funded by the Family Social Services appropriation reflect new directions:

- The Department has given great emphasis to permanency planning:
  - The number of children adopted through the Adoption Assistance program has grown to an average of almost 18,000 on a monthly basis, an increase of approximately 50 percent over Fiscal Year 1984.
  - The number of States participating in the Adoption Assistance program has grown from none in Fiscal Year 1980 to 49 in Fiscal Year 1986.
- Progress in the area of permanency planning has also been accomplished through Adoption Opportunities projects, including:
  - Continued support for a national adoption exchange which allows for a pooling of resources nationally by agencies, organizations and more localized exchanges to increase their abilities to place children with special needs in adoptive homes.
  - Training and technical assistance to States to strengthen their adoption programs.

- The Child Welfare Training program has continued to fund schools of higher learning to train individuals and to work with States on critical issues in child welfare. However, in the last three years, an effort has been made to redirect these training activities to address more immediate needs of State-based child welfare agencies.
  - Over the past five years, these funds have provided traineeships for at least 4,600 students who have chosen a career in child welfare.

Foster Care

Authorizing legislation, Title IV-E of the Social Security Act as amended.

1987 Authorization: Indefinite

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$507,641,000	$501,580,000	$501,580,000	$544,310,000	+$42,730,000

Purpose and Method of Operations - This program provides funds to States to assist with the costs of foster care maintenance for eligible children, administrative costs to manage the program, and training for staff. The purpose of the program is to help States provide proper care for children who need placement outside their homes, in a foster family home or an institution.

This program is an open-ended entitlement program. Federal financial participation in State expenditures for this program is provided at the Medicaid match rate, which varies among States from 50 percent to 78 percent. Payment rates for children also vary from State to State.

The 1980 amendments to the Social Security Act link this program (Title IV-E) to the Child Welfare Services State Grant Program (Title IV-B). The same State agency must administer, or supervise the administration of both programs. The broad goal of both programs is to strengthen families in which children are at risk.

Under certain circumstances, if a State spends less than its allotment amount for foster care, it may transfer the remaining funds to Title IV-B to provide child welfare services. In order to transfer funds, the State must meet several requirements, including having in place specific protections and services to benefit children and their families. The transferability of funds reinforces the emphasis of the 1980 amendments -- services to strengthen or reunify families are preferred to financing the maintenance of children in foster care apart from their families.

Federal financial participation in total expenditures has varied over the past five fiscal years as follows:

1982	$295,984,810
1983	$395,000,000
1984	$478,470,000
1985	$517,223,000
1986	$501,580,000

The Federal financial participation cited above includes funds transferred to Title IV-B for Child Welfare Services.

FY	Foster Care	# of States Transferring	Transferred
1982	$275,425,052	20	$20,559,758
1983	$362,180,000	29	$32,608,195
1984	$398,180,000	23	$32,176,105
1985	$497,631,151	22	$19,591,849
1986	$481,580,000	22	$20,000,000

The average monthly number of children for whom claims have been paid is now stabilizing at 102,000. More children are leaving foster care, but more are entering often as a result of increased reporting of child abuse and neglect. Children, on average, are spending less time in foster care.

Rationale for the Budget Request - The Fiscal Year 1987 budget request of $544,310,000 is based on proposed legislation introduced last year, and estimated to save $38,690,000 from current law estimates.

This legislation would give States a financial incentive in future years to reduce the duration of children's stays in Foster Care, and would also:

- remove barriers to Medicaid coverage for children with special needs adopted under the Adoption Assistance program by eliminating the requirement that they receive Adoption Assistance subsidies to qualify for Medicaid; and by making them eligible for Medicaid in their State of residence, regardless of where they were adopted; and,

- modify Foster Care financing by reducing from $266 to $200 million the level of appropriations for Child Welfare Services needed to "trigger" an automatic cap on Foster Care; reducing from two to one year States' time to submit claims for reimbursement; and setting 1984 as the base year adjusted by the lower of 5 percent or the CPI for purposes of calculating States' Foster Care allotments in years in which cap is triggered.

An estimated 102,000 children per month would continue to be supported in foster homes or institutions in Fiscal Year 1987, the same number as in Fiscal Year 1986.

The Administration believes, however, that too many children remain in Foster Care for too long a period. As a result, the Administration continues to support legislation introduced in Fiscal Year 1986, which would provide States with incentives to reduce the unnecessary use of Foster Care.

Adoption Assistance

Authorizing legislation, Title IV-E of the Social Security Act

1987 Authorization: Indefinite

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$41,948,000	$41,391,000	$41,391,000	$59,904,000	+$18,513,000

Purpose and Method of Operations - Although the Office of Human Development Services (OHDS) policy is to prevent family dissolution whenever possible, it is sometime necessary and advisable to seek permanent placement for children outside the biological family.

This program provides funds to States to assist in paying maintenance costs for children with special needs who are adopted under certain conditions. Funds are also used for the administrative costs of managing the program and training for staff. The goal of this program is to facilitate the placement of hard to place children in permanent adoptive homes and thus prevent long, inappropriate stays in foster care.

Adoption Assistance is an open-ended entitlement program. Federal financial participation in State expenditures is provided at the Medicaid match rate which varies among States from 50 percent to 78 percent. Payment rates for individual children also vary from State to State but may not exceed comparable foster family care rates.

To receive adoption assistance benefits, a child must:

- have been receiving or be eligible to receive Aid to Families with Dependent Children benefits; or

- have been receiving or be eligible to receive Supplemental Security Income benefits.

The number of adopted children subsidized by this program and the level of Federal reimbursement have increased significantly since this program's inception in Fiscal Year 1981, as more States, especially those with larger populations, have begun operations under Title IV-E of the Social Security Act. From Fiscal Year 1981, when only six States were placing chidlren with subsidies, until Fiscal Year 1986, when all States were participating in Title IV-E, the average monthly number of children for whom payments were made increased from 289 to over 21,000.

Past appropriations have been:

Fiscal Year	Appropriation	Program Level	# of States Participating
1982	$ 5,000,000	$ 4,734,486	20
1983	$ 5,000,000	$12,560,815	44
1984	$26,700,000	$25,638,860	47
1985	$35,351,000	$35,646,147	49
1986	$41,391,000	$46,080,000	49

Rationale for the Budget Request - The Fiscal Year 1987 request is $59,904,000, an increase of $18,513,000 over the Fiscal Year 1986 appropriated level. This program will serve an estiamted average of 27,475 children per month in permanent adoptive homes during 1987.

Further, consistent with the Administration's emphasis on removing barriers to adoption, in 1986 the Administration proposed, and continues to support legislation to remove barriers to Medicaid coverage for children with special needs adopted with Adoption Assistance subsidies.

Child Welfare Services

Authorizing legislation, Title IV-B of the Social Security Act

1987 Authorization: $266,000,000

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$207,000,000	$198,099,000	$198,099,000	$200,000,000	+$1,901,000

Purpose and Method of Operations - This program helps State public welfare agencies to improve their child welfare services with the goal of keeping families together. State services include preventive intervention, so that if possible children will not have to be removed from their homes, services to develop alternative placements like foster care or adoption if children cannot remain at home, and reunification services so that children can return home if at all possible.

Funds are distributed to States in the form of grants. Each State receives a base amount of $70,000. Any additional funds received by a State are distributed in proportion to the State's population of children under age 21 multiplied by the complement of the State's average per capita grant.

All States are eligible to receive a share of the first $141 million appropriated for Child Welfare Services. However, as an incentive to States, only those which have implemented specific protections for children contained in P.L. 96-272, the Adoption Assistance and Child Welfare Act of 1980, are eligible to share in any amount appropriated for this program in excess of $141 million. As a further incentive, States implementing the protections may also transfer unused funds from their Foster Care allotment to Child Welfare Services.

The protections States must implement to receive the incentive funds include: (1) conducting an inventory of all children in foster care for at least six months; 2) establishing an information and locator system for all children in foster care; (3) conducting periodic case reviews of all foster care children; (4) providing due process protections for families; and (5) conducting in-home and permanent placement service programs, including preventive and reunification services.

In Fiscal Year 1985, forty-six (46) States were eligible for incentive funds. In Fiscal Year 1986, it is estimated that all States will be eligible to share in the additional funds. Child welfare services are available to children and their families without regard to income.

Funding of the program during the past five fiscal years has been as follows:

1982	$156,326,000
1983	$156,326,000
1984	$165,000,000
1985	$200,000,000
1986	$198,099,000

Under Section 428 of Public Law 96-272, beginning in Fiscal Year 1983, grants were awarded directly to eligible Indian Tribal Organizations meeting State plan requirements for child welfare services. In Fiscal Year 1985, grants totaling $426,127 were made to thirty-six (36) Indian Tribal Organizations in eleven States: Alaska, Arizona, Colorado, Mississippi, Montana, New Mexico, North Carolina, North Dakota, Oklahoma, South Dakota and Utah. All of the funds were awarded from the allotment of the States in which the Indian Tribal Organizations are located. In Fiscal Year 1986, 38 grants were made to Indian Tribal Organizations in the same eleven States: Two additional Indian Tribal Organizations will be eligible and will apply for funds in Fiscal Year 1987. The estimated total of these 40 grants is $450,000.

Rationale for the Budget Request - There are approximately 80 million children in 33 million families in the nation. At any given time, approximately 2,000,000 children and their families depend on public child welfare agencies for income or foster care services.

The Fiscal Year 1987 budget request is for $200,000,000, the same level as was requested for 1986. It is estimated that all States will be eligible for incentive grants under Section 427 of Public Law 96-272 in 1987. States will continue to direct these funds toward meeting the requirements of Section 427 and thereby protect children, particularly by providing services to prevent placement in foster care or to reunify children with their families.

Child Welfare Training

Authorizing legislation, Title IV-B of the Social Security Act, Title IV, Section 426

1987 Authorization: Indefinite

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$3,823,000	$3,658,000	$3,658,000	$3,823,000	+$165,000

Purpose and Method of Operations - Discretionary grants are awarded to public and private non-profit institutions of higher learning to develop and improve education/training programs and resources for child welfare service providers. These grants upgrade the skills and qualifications of child welfare workers through their participation, full-time or part-time, in programs focused specifically on child welfare services. Activities supported include:

- providing practice-oriented training for workers and supervisors.
- providing training in critical child welfare issues for key administrators and managers of State public child welfare agencies;
- improving the ability of State or local child welfare agencies to provide practice-relevant child welfare services training, or to implement staff development activities;
- providing financial support to public or voluntary child welfare workers and students to upgrade their practice skills and to acquire specialized information and expertise related to the delivery of child welfare services.

In 1985, 35 teaching grants were awarded to colleges and universities to provide training for 4,885 child welfare workers, supervisors and administrators; and 32 traineeship grants were awarded to provide financial assistance for 264 people currently employed in the child welfare area.

Recent apppropriations have been as follows:

1982	$3,823,000
1983	$3,823,000
1984	$3,823,000
1985	$3,823,000
1986	$3,658,000

Rationale for Budget Request - The Fiscal Year 1987 budget request for Child Welfare Training is $3,823,000, the same amount as was requested in the Fiscal Year 1986 President's Budget. Caseworkers in the field of child welfare should be as well trained as possible. Their skills are vital to implementation of the processes required in P.L. 96-272 to prevent children's out-of-home placement and to reunify foster children with their families. One out of five children returned to their families are re-entering the child welfare system. Child welfare workers are increasingly called upon to deal with more difficult family situations, and therefore need to be as capable as possible of meeting children's needs so that unnecessary stays in the child welfare system can be avoided.

Program Data:

Activity	1985 Actual	1986 Appropriation	1986 Sequestering	1987 Estimate
Teaching				
($ in 000's)	$2,839	$2,663	$2,563	$2,340
# of grants	35	35	35	29
# of trainees	4,885	4,538	4,411	4,028
Traineeships				
($ in 000's)	$ 965	$1,140	$1,075	$1,463
# of grants	32	34	34	40
# of trainees	264	312	296	399
Field Review				
($ in 000's)				
Expenses	$ 19	$ 20	$ 20	$ 20
	$3,823	$3,823	$3,658	$3,823

Child Welfare Research and Demonstration

Authorizing legislation, Social Security Act, Title IV, Section 426

1987 Authorization: Indefinite

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$11,825,000	$11,317,000	$8,400,000	$6,000,000	-$2,400,000

Purpose and Method of Operations - The Child Welfare Research and Demonstration program strengthens the family as the primary agent responsible for the developmental needs of children and youth. The Administration for Children, Youth and Families funds research, demonstration, dissemination, utilization and technical assistance activities in four basic areas -- child welfare, child care, youth development and child and family development. The resources budgeted for these four areas address the needs and problems confronting some of the most vulnerable children and families in the country: children in foster care, children in need of adoptive homes, children from poor families who require child care, and vulnerable youth who are runaways or homeless.

The Administration for Children, Youth and Families concentrates on projects which hold particular promise for contributing to knowledge of how to support the family as the principal child rearing unit and how to enable families to better meet their own needs. Information is generated and disseminated on child rearing skills, family environment, types of resources and services which foster the development and well-being of children, youth and families, and the interactions which occur between families and institutions.

The Child Welfare Research and Demonstration program also seeks qualitative improvements in the services provided for children, youth and families and in the systems which deliver these services. Efforts include: preventing family dissolution with supportive and emergency services to provide permanent suitable placement for children; and improving the quality of services and service delivery approaches for runaway and homeless youth and for children in day care.

Research, demonstration, dissemination, utilization and technical assistance grants are awarded competitively to public and private non-profit agencies including State and local governments, universities and voluntary agencies.

Grants and contracts are awarded on the basis of announcements published in the Federal Register for grants and the Commerce Business Daily for contracts. Contracts may be awarded to proprietary or non-profit organizations. Projects supported by grants will generally run for periods ranging from 12 to 36 months. Those supported by contract will generally run for one or two years.

Recent apppropriations for this activity have been as follows:

1982	$ 7,058,000
1983	$10,608,000
1984	$10,000,000
1985	$12,000,000
1986	$ 8,400,000

Rationale for the Budget Request - The Budget request for Fiscal Year 1987 is $6,000,000, a reduction of $2,400,000 from the amount requested in the Fiscal Year 1986 President's Budget. In each of the past few years, some of the funds appropriated for this activity have been reprogrammed in support of cross-cutting projects under Section 1110 of the Social Security Act. For Fiscal Year 1987, funds will be separately requested, specifically to support activities authorized under Section 1110. The request for Child Welfare discretionary activities has therefore been reduced by $2,400,000 and an equivalent amount is being requested separately for section 1110 activities.

Funds are requested to conduct research, demonstration, dissemination, utilization and technical assistance activities to strengthen the quality and effectiveness of programs directed at the development of children, youth and families. Projects provide basic information on the problems faced by families with children, explore the effectiveness and impact of existing programs, and allow for the demonstration and replication of successful services.

Program Data

Activity	1985 Actual	1986 Appropriation	1986 Sequestering	1986 Revised Estimate	1987 Estimate
Child Welfare	$7,200	$7,025	$6,754	$5,040	$3,440
Child Care	480	480	480	336	336
Child & Family	4,200	4,200	4,053	2,940	2,140
Family & Youth	120	120	120	84	84
	$12,000	$11,825	$11,317	$8,400	$6,000

Adoption Opportunities

Authorizing legislation - Title II of the Child Abuse Prevention and Treatment and Reform Act of 1978, as amended (P.L. 98-457)

1987 Authorization: $5,000,000

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$5,000,000	$4,785,000	$1,400,000	$1,400,000	$ - - -

Purpose and Method of Operations - The Adoption Opportunities program eliminates barriers to adoption and helps to find permanent homes for children who would benefit by adoption, particularly children with special needs. The three major program areas, as mandated by the legislation, are: (1) the development and implementation of a national adoption and foster care data gathering and analysis system; (2) the development and implementation of a national adoption information exchange system; and (3) the development and implementation of an adoption training and technical assistance program. Activities in these three areas are supported through grants and contracts.

Research and demonstration grants are awarded through competitive review to public and private non-profit agencies including State and local governments, universities and voluntary agencies. Contracts may be awarded to nonprofit or voluntary organizations. Grants and contracts are awarded on the basis of priority statements published in the Federal Register for grants and the Commerce Business Daily for contracts. Projects supported by grants and contracts generally run for one or two years.

1982	$1,912,000
1983	$1,912,000
1984	$1,912,000
1985	$2,000,000
1986	$1,400,000

Rationale for the Budget Request - The Fiscal Year 1987 budget request is $1,400,000, the same amount as was requested in the Fiscal Year 1986 President's Budget.

The funds requested will support projects which will continue to explore the numbers and types of children who are free for adoption; the types of families seeking to adopt; and barriers to the adoption of children.

Child care service workers will be trained to find and prepare families for adoptive placement. Technical assistance will be provided to States to incorporate successful program models of minority or disabled children. Innovative models for the provision of post-placement and post-adoption services to ensure the strength of adoption will be developed and disseminated.

Social Services Research

Authorizing legislation - Section 1110 of the Social Security Act as amended.

1987 Authorization: Indefinite

1986 Appropriation	1986 Available After Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$ - - -	$ - - -	$ - - -	$2,400,000	+$2,400,000

Purpose and Method of Operations - The Social Services Research program is a resource to assist States, tribes and communities, public and private agencies effectively manage and deliver the range of human services covered by the four program areas of the Office of Human Development Services. These four program areas share a common mission which is to reduce dependency and to increase self-sufficiency among our most vulnerable citizens. These funds are used to aggregate projects funded under the Human Development Services Coordinated Discretionary Funds Program, when a single project may be funded through a number of the statutory authorities for discretionary activities. These funds help administrators develop innovative and more effective methods of program management, obtain the information necessary for decision-making and marshall family and community-based resources to develop alternatives to traditional social services approaches. The transfer and replication of successful innovative models which have direct client impact on reducing dependency at a reasonable cost and the adoption of these models to keep pace with the changing social and economic conditions affecting children, youth, families, the aged, the disabled, Native Americans and the working poor are a priority use of these funds.

The Office of Human Development Services funds research, demonstration, evaluation and dissemination/utilization activities in a coordinated approach that concentrates resources on priority State and community programs to increase family and individual self-sufficiency and independence through social and economic development strategies. Grants, cooperative agreements and contracts are awarded to eligible applicants on the basis of announcements published in the Federal Register and the Commerce Business Daily; in general, any public or private non-profit organization or agency or for profit organization is considered eligible to compete for funding.

Examples of projects supported during the past three years include:

- Integrated Service Delivery Systems : Awards were made to Arizona, Florida, Maine, Oklahoma and South Carolina for demonstrations which improve the delivery of services to individuals and families under various human services programs by eliminating programmatic fragmentation. Planning grants were made in May 1985, Phase II begins May 1986 and the final phase begins October 1987 and ends in October 1988.

- Individual and Family Self-Sufficiency: The promotion of self-sufficiency and services to prevent or reduce future needs for services are a major focus of the Fiscal Year 1986 HDS Coordinated Discretionary Funds Program announcement. Projects in Fiscal Year 1987 will continue to address the transfer of successful innovative models in this area.

- Program/Management Effectiveness: Over the past several years, activities funded under the discretionary program have produced results that have contributed to changes in program policies and operations. However, the need still exists for greater use of the state of the art technologies which are available to State and local governments and service providers.

Rationale for the Budget Request - The budget request for Fiscal Year 1987 is $2,400,000. Although funds have not been requested specifically for this activity in recent years, similar activities have been carried out with funds appropriated for Child Welfare Research and Demonstration. Funds requested for Fiscal Year 1987 will support research, demonstration, evaluation, dissemination and utilization activities to increase family and individual self-sufficiency through State, local and tribally-administered human services programs.

The Fiscal Year 1987 budget request of $2,400,000 will support 24 projects, including the continuation of projects begun in Fiscal Years 1985 and 1986 as well as new initiatives. The major areas to be addressed can be clustered as follows:

Clusters	Estimated Cost
Integrated Service Delivery Systems for Human Services Programs	$1,237,278
Individual and Family Self-Sufficiency	812,905
Program/Management Effectiveness	348,817
Total	$2,400,000

OFFICE OF HUMAN DEVELOPMENT

Estimate for Consultant Services

(in thousands of dollars)

Account Title	Type 1/	Source of Funds 2/	1985	Obligations 1986	1987
Evaluation					
Family Social Services	C	A	539	485	485
Total, consultant services			539	485	485
TOTALS:					
Contractual Services			539	485	485
Total, consultant services			539	485	485

1/ Indicate C for contractual services, P for personnel appointments, or A for advisory committee obligations.

2/ Indicate A for appropriated fnds or N for non-appropriated funds.

Consultant services are intended to provide services of a purely advisory nature relating to the governmental functions of agency administration and management and agency program management. For this account, such services include projects for basic ordering evaluation/assessment of various social services programs.

OFFICE OF HUMAN DEVELOPMENT

Estimate for Related Services

(in thousands of dollars)

Account Title	Type 1/	Source of Funds 2/	1985	Obligations 1986	1987
Evaluation					
Family Social Services	SA		475	384	384

Narrative Summary Statements

The Office of Human Development Services has justifiable needs for related services in the special studies and analysis area to assist in the accomplishment of specific goals and objectives. Examples of these related services for the current year are: Indian Child Welfare Studies, Indian Adoption and Foster Care Services; and, Inventory of HDS Related Microcomputer Applications.

STATE TABLES

Foster Care
Title IV-E
State Allocations

	1985 Actual	1986 Estimate	1987 Estimate
Total	$ 517,223,000 1/	$ 501,580,000	$ 544,310,000
Alabama	2,670,664	2,712,000	2,584,000
Alaska	-93,284 2/	65,000	94,000
Arizona	2,004,594	2,248,000	2,460,000
Arkansas	1,033,393	1,040,000	646,000
California	101,164,860	107,807,000	117,980,000
Colorado	2,480,767	2,604,000	2,822,000
Connecticut	4,023,213	3,191,000	3,435,000
Delaware	712,250	598,000	647,000
Dist. of Columbia	5,566,635	7,746,000	8,395,000
Florida	4,002,188	3,661,000	4,310,000
Georgia	7,765,626	7,462,000	8,649,000
Hawaii	61,040	61,000	45,000
Idaho	517,198	672,000	567,000
Illinois	10,410,489	8,954,000	7,391,000
Indiana	2,719,705	2,747,000	2,971,000
Iowa	2,317,645	2,448,000	2,508,000
Kansas	4,309,144	4,347,000	5,187,000
Kentucky	3,667,601	4,612,000	3,745,000
Louisiana	13,810,692	11,235,000	12,330,000
Maine	3,720,832	2,611,000	3,482,000
Maryland	5,059,734	5,694,000	5,477,000
Massachusetts	9,476,794	4,730,000	5,977,000
Michigan	38,546,486	34,743,000	39,117,000
Minnesota	7,714,852	6,641,000	7,479,000
Mississippi	936,686	1,494,000	1,532,000
Missouri	4,961,428	10,738,000	4,111,000
Montana	1,821,646	1,534,000	1,794,000
Nebraska	2,709,716	2,762,000	2,692,000
Nevada	343,880	378,000	422,000
New Hampshire	1,377,014	1,295,000	1,421,000

	1985 Actual	1986 Estimate	1987 Estimate
New Jersey	$ 7,282,546	$ 8,155,000	$ 7,589,000
New Mexico	1,875,312	2,194,000	735,000
New York	136,243,826	143,742,000	158,347,000
North Carolina	2,668,500	2,643,000	3,022,000
North Dakota	762,585	828,000	923,000
Ohio	6,783,308	6,566,000	6,807,000
Oklahoma	3,092,469	3,018,000	4,324,000
Oregon	6,842,530	6,611,000	8,789,000
Pennsylvania	57,604,629	32,379,000	39,813,000
Rhode Island	1,111,688	964,000	1,460,000
South Carolina	1,792,257	1,734,000	1,575,000
South Dakota	703,869	684,000	733,000
Tennessee	3,185,536	3,212,000	4,022,000
Texas	11,123,792	9,600,000	11,951,000
Utah	969,846	1,006,000	1,077,000
Vermont	2,428,428	2,511,000	2,261,000
Virginia	6,013,202	4,688,000	5,897,000
Washington	4,311,831	4,976,000	5,768,000
West Virginia	4,934,802	7,158,000	6,260,000
Wisconsin	11,413,128	11,765,000	12,402,000
Wyoming	265,428	316,000	285,000
American Samoa	N/A	N/A	N/A
Guam	N/A	N/A	N/A
Puerto Rico	N/A	N/A	N/A
Trust Territories of the Pacific	N/A	N/A	N/A
Virgin Islands	N/A	N/A	N/A
Northern Mariana Islands	N/A	N/A	N/A

1/ Includes supplemental appropriation of $56,944,000.
2/ Includes negative adjustment for fiscal year 1983 of $160,391.

Adoption Assistance
Title IV-E
State Allocations

	1985 Actual	1986 Estimate	1987 Estimate
Total	$ 35,351,000 1/	$ 45,523,000	$ 59,904,000
Alabama	107,329	137,000	178,000
Alaska	-0-	-0-	-0-
Arizona	396,097	540,000	705,000
Arkansas	117,107	160,000	209,000
California	6,396,949	6,292,000	8,220,000
Colorado	52,181	92,000	120,000
Connecticut	100,628	141,000	184,000
Delaware	-0-	30,000	40,000
Dist. of Columbia	464,794	1,245,000	1,627,000
Florida	1,526,949	1,789,000	2,337,000
Georgia	37,924	49,000	65,000
Hawaii	5,468	8,000	10,000
Idaho	16,794	23,000	30,000
Illinois	1,493,147	2,057,000	2,688,000
Indiana	230,388	325,000	424,000
Iowa	155,921	221,000	289,000
Kansas	123,416	165,000	216,000
Kentucky	244,830	346,000	451,000
Louisiana	207,592	299,000	391,000
Maine	185,735	271,000	353,000
Maryland	151,923	429,000	560,000
Massachusetts	351,296	472,000	617,000
Michigan	3,659,320	4,705,000	6,581,000
Minnesota	463,324	611,000	798,000
Mississippi	228,607	317,000	414,000
Missouri	599,938	676,000	883,000
Montana	53,550	71,000	92,000
Nebraska	218,943	312,000	407,000
Nevada	13,729	20,000	27,000
New Hampshire	63,462	91,000	119,000

	1985 Actual	1986 Estimate	1987 Estimate
New Jersey	$ 733,280	$ 713,000	$ 932,000
New Mexico	112,166	177,000	232,000
New York	12,875,012	17,066,000	22,293,000
North Carolina	174,407	244,000	318,000
North Dakota	109,152	147,000	192,000
Ohio	633,380	924,000	1,208,000
Oklahoma	68,044	98,000	128,000
Oregon	51,637	70,000	91,000
Pennsylvania	311,633	249,000	325,000
Rhode Island	70,379	128,000	168,000
South Carolina	131,435	178,000	233,000
South Dakota	34,191	45,000	59,000
Tennessee	169,116	258,000	337,000
Texas	536,146	1,068,000	1,396,000
Utah	54,165	79,000	103,000
Vermont	99,033	148,000	193,000
Virginia	272,545	379,000	495,000
Washington	411,896	554,000	723,000
West Virginia	79,254	121,000	158,000
Wisconsin	756,788	983,000	1,285,000
Wyoming	-0-	-0-	-0-
American Samoa	N/A	N/A	N/A
Guam	N/A	N/A	N/A
Puerto Rico	N/A	N/A	N/A
Trust Territories of the Pacific	N/A	N/A	N/A
Virgin Islands	N/A	N/A	N/A
Northern Mariana Islands	N/A	N/A	N/A

1/ Includes supplemental appropriation of $22,551,000.

Child Welfare Services
Title IV-B
State Allocations

	1985 Actual	1986 Estimate	1987 Estimate
Total	$ 200,000,000	$ 198,099,000	$ 200,000,000
Alabama	4,548,559	4,089,071	4,128,404
Alaska	275,414	359,910	362,747
Arizona	2,864,460	2,804,440	2,831,200
Arkansas	2,535,538	2,452,224	2,475,538
California	18,943,326	17,269,878	17,438,203
Colorado	2,753,688	2,399,446	2,422,243
Connecticut	2,117,869	1,785,787	1,802,578
Delaware	529,551	515,063	519,418
Dist. of Columbia	418,267	359,206	362,036
Florida	6,792,719	7,712,795	7,787,590
Georgia	5,753,791	5,642,090	5,696,621
Hawaii	638,718	900,366	908,493
Idaho	1,134,401	1,160,941	1,171,618
Illinois	8,818,599	8,559,133	8,642,211
Indiana	4,962,356	5,012,064	5,060,429
Iowa	2,683,537	2,498,566	2,522,333
Kansas	1,947,478	1,910,773	1,928,788
Kentucky	3,817,768	3,725,080	3,760,850
Louisiana	4,747,207	4,500,964	4,544,328
Maine	1,298,426	1,148,933	1,159,492
Maryland	3,159,462	3,060,860	3,090,130
Massachusetts	2,935,840	3,872,801	3,910,017
Michigan	8,094,654	7,686,033	7,760,567
Minnesota	3,758,626	3,382,869	3,415,290
Mississippi	3,153,161	3,139,738	3,169,779
Missouri	4,800,227	4,276,271	4,317,435
Montana	917,077	850,188	857,823
Nebraska	1,571,431	1,417,497	1,430,685
Nevada	679,966	710,843	717,114
New Hampshire	956,453	831,914	839,371

	1985 Actual	1986 Estimate	1987 Estimate
New Jersey	$ 5,406,335	$ 4,618,394	$ 4,662,907
New Mexico	1,740,328	1,576,503	1,591,246
New York	12,529,098	12,122,899	12,240,853
North Carolina	6,447,116	5,776,153	5,831,996
North Dakota	759,245	652,144	657,841
Ohio	7,680,759	9,027,320	9,114,980
Oklahoma	3,238,723	2,880,768	2,908,276
Oregon	2,232,748	2,310,843	2,332,773
Pennsylvania	9,161,019	9,026,633	9,114,286
Rhode Island	877,254	777,550	784,474
South Carolina	3,899,252	3,475,161	3,508,486
South Dakota	851,439	772,923	779,802
Tennessee	4,581,050	4,497,007	4,540,331
Texas	14,902,440	13,803,968	13,938,374
Utah	2,402,874	2,258,715	2,280,135
Vermont	284,280	559,596	564,387
Virginia	1,238,905	4,364,455	4,406,482
Washington	3,248,270	3,331,227	3,363,143
West Virginia	1,975,470	1,946,483	1,964,847
Wisconsin	4,386,673	4,030,491	4,069,250
Wyoming	363,428	488,170	492,263
American Samoa	N/A	N/A	N/A
Guam	258,133	270,066	272,024
Puerto Rico	3,631,626	5,139,202	5,188,811
Trust Territories of the Pacific	N/A	N/A	N/A
Virgin Islands	191,019	252,177	253,960
Northern Mariana Islands	101,947	104,404	104,741

DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF HUMAN DEVELOPMENT SERVICES
Work Incentives

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OFFICE OF HUMAN DEVELOPMENT SERVICES

Work Incentives

[For carrying out a work incentive program, as authorized by part c of title IV of the Social Security Act, including registration of individuals for such programs, and for related child care and other supportive services, as authorized by section 402(a)(19)(G) of the Act, including transfer to the Secretary of Labor, as authorized by section 431 of the Act, $220,000,000 which shall be the maximum amount available for transfer to the Secretary of Labor and to which the States may become entitled pursuant to section 403(d) of such Act, for these purposes.] *(Department of Health and Human Services Appropriation Act, 1986.)*

Work Incentives

Amounts Available for Obligation

	1985	1986	1987
Appropriation........	$266,760,000	$220,000,000	---
Sequester order......	---	-9,460,000	---
Proposed rescission..	---	-45,884,000	---
Subtotal, adjusted appropriation......	266,760,000	164,656,000	---
Unobligated balance lapsing............	-3,234,000	---	---
Total obligations..	263,526,000	164,656,000[1]	---

---

[1] Excludes a net 1986 transfer of DOL salaries and expenses to the Program Administration account of the Employment and Training Administration (ETA) of 49 full-time equivalent (FTE) positions and a net $2,998,000 of budget authority consistent with Administration proposals to terminate funding for this program.

It is anticipated that $429,000 of $3,427,000 available for Department of Labor WIN staffing will not be required. This will result in 11 FTE lapsing. Therefore, the recovered $429,000 will be used to provide technical assistance to States for the phaseout and grant closeout of the WIN program.

Work Incentives

Summary of Changes

1986 Estimate	$220,000,000
1986 Sequester order	-9,460,000
1986 Proposed rescission	-45,884,000
Total estimated budget authority	164,656,000 1/
1987 Request	--
Net change	-164,656,000

	1986 Current Estimate Base		Change from Base	
	Pos. (FTE)	Budget Authority	Pos. (FTE)	Budget Authority
Decreases:				
A. Program:				
1. To provide for a reduction in Grants to States due to phaseout of program.	---	$157,000,000	---	-$157,000,000
2. To provide for a reduction in program direction and staff costs	46 (79)	7,656,000	-46 (-79)	-7,656,000
Total decreases.			-46 (-79)	-164,656,000
Net change			-46 (-79)	-164,656,000

1/ Excludes a net 1986 transfer of DOL salaries and expenses to the Program Administration account of the Employment and Training Administration of 49 FTE positions (16 budgeted positions) and a net $2,998,000 of budget authority consistent with Administration proposals to terminate funding for this program.

Work Incentives

Budget Authority by Activity

(Budget authority in thousands)

	1985 Actual		1986 Appropriation		1986 after Sequestering		1986 Current Estimate 1/		1987 Estimate	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Grant To States.......	---	$258,099	---	$212,000	---	$202,884	---	$157,000	---	---
2. Program Direction and Evaluation...	94	8,661	90	8,000	90	7,656	79	7,656 2/	---	---
Total budget authority...	94	266,760	90	220,000	90	210,540	79	164,656	---	---

NOTES

1/ Includes a proposed rescission of $45,884,000 contained in the President's Budget.

2/ Excludes a net 1986 transfer of DOL salaries and expenses to the Program Administration account of the Employment and Training Administration of 40 FTE positions and a net $2,998,000 of budget authority consistent with Administration proposals to terminate funding for this program.

Work Incentives

Budget Authority by Object

	1986 Current 1/ Estimate	1987 Estimate	Increase or 2/ Decrease
Total number of full-time permanent positions...	46	---	-46
Total compensable workyears:			
Full-time equivalent employment..........	79	---	-79
Average GS grade........	11.54	---	-11.54
Average GS salary.......	$38,854	---	-$38,854
Personnel compensation:			
Full-time permanent...	$3,003,000	---	-$3,003,000
Other than full-time permanent...........	97,000	---	-97,000
Other personnel compensation........	17,000	---	-17,000
Total personnel compensation....	3,117,000	---	-3,117,000
Personnel benefits......	341,000	---	-341,000
Travel and transportation of persons.......	288,000	---	-288,000
Transportation of things	5,000	---	-5,000
Rent, communications and utilities:			
Rental payments to GSA................	194,000	---	-194,000
Communications, utilities, and miscellaneous charges........	621,000	---	-621,000
Printing and reproduction..........	13,000	---	-13,000

Work Incentives

Budget Authority by Object

	1986 Current 1/ Estimate	1987 Estimate	Increase or Decrease 2/
Other services..........	$1,585,000	---	-$1,585,000
Project contracts.....	1,432,000	---	-1,432,000
Supplies and materials..	10,000	---	-10,000
Equipment...............	8,000	---	-8,000
Grants, subsidies and contributions.........	157,000,000	---	-157,000,000
Total budget authority by object..........	164,656,000	---	-164,656,000

1/ Reflects a reduction of $9,460,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177; a proposed rescission of $45,884,000; and the proposed use of $429,000 (which supported 11 FTE's not required for DOL staffing) for technical assistance to States for the phaseout and grant closeout of the WIN program. Includes $3,427,000 for DOL salaries and expenses, supporting 60 FTE's, which will be comparatively transferred.

2/ In 1987, funding for WIN staff at the Department of Labor to conduct the closeout of the WIN program will be transferred to the Program Administration account of the Employment and Training Administration at the budgeted level of 4 FTE and $220,000. Change entries from 1986 to 1987 for DOL salaries and expenses for WIN appear in that budget. In 1986, the comparable number of FTE positions is 49: the net comparable amount of budget authority is $2,998,000. Additional program direction and other project costs allocated to the Department of Labor in 1985 totaled $1,508,000.

Work Incentives

Authorizing Legislation

	1986 Amount Authorized	1986 Current Estimate	1987 Amount Authorized	1987 Budget Request
Social Security Act as amended 1/ Sec. 431--Work Incentive Program for Recipients of Aid to Dependent Children; and Sec. 401--Child Care (Related to Work Incentive Program)..	Indefinite	$164,656,000	Indefinite	---

1/ 1981 amendment Part IV, A, Sec. 445 establishes the WIN Demonstration Program

Work Incentives

Tables of Estimates and Appropriations

	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1977	$315,000,000	$370,000,000	$370,000,000	$370,000,000
1978	356,000,000	365,000,000	365,000,000	365,000,000 1/
1979	365,271,000	285,000,000	385,000,000	385,000,000 1/
1980	385,000,000	365,000,000	385,000,000	365,000,000 1/
1981	385,000,000	365,000,000	2/	365,000,000 1
1982	321,025,000	321,025,000	256,000,000	280,760,000 1/ 3
1983	---	280,760,000	260,760,000	270,760,000 1/
1984	---	270,760,000	270,760,000	270,760,000
1985	---	266,760,000	270,760,000	266,760,000
1986	---	250,000,000	266,760,000	220,000,000
1986 Sequester	-9,460,000			
1986 Proposed Rescission	-45,884,000			
1987	---			

1/ Funds received under a Continuing Resolution.

2/ Senate did not consider request.

3/ Includes $35 million supplemental appropriation (P. L. 97-216, dated 7-18-82).

Work Incentives

Justification

Account Summary

	1986 Current Estimate		1987 Estimate		Increase or Decrease	
	FTE	BA	FTE	BA	FTE	BA
Grants to States.......	---	$157,000,000[1]	---	$157,000,000	---	-$157,000,000
Program direction and evaluation...	79	7,656,000	---	---	-79	-7,656,000
Total, budget authority..	79	164,656,000	---	---	-79	-164,656,000

General Statement

The Work Incentive Program (WIN) provides employment and training services for recipients of and applicants for Aid to Families with Dependent Children (AFDC) who are required to register for employment and work-related training. The program emphasizes placing the maximum number of participants in unsubsidized employment, thus reducing the nation's welfare assistance costs.

WIN is jointly administered by the Department of Labor (DOL) and the Department of Health and Human Serrvices (DHHS). Employment and training services are provided by State Employment Service agencies, and supportive social services such as child care are provided by State welfare agencies. In States operating WIN Demonstration Programs, as authorized under the Omnibus Budget Reconciliation Act of 1981, the program is administered entirely by the DHHS Office of Family Assistance through State welfare agencies. Currently, 26 States are operating WIN Demonstration Programs.

The President's Fiscal Year 1987 budget does not propose separate funding for WIN. This budget request reflects the Administration's decision to phase out the WIN program in the last quarter of Fiscal Year 1986.

Instead, under the President's 1987 budget proposals AFDC applicants and recipients will be required to participate in job search and other employment-related activities as a condition of AFDC eligibility. These new activities will be administered by the Department of Health and Human Services' Office of Family Assistance and separately funded at a matching rate of 50 percent. In addition, alternative job-finding and social services programs are available for AFDC recipients under the Job Training Partnership Act (which requires equitable services to AFDC recipients), and the Social Services Block Grant.

1/ Reflects a reduction of $9,116,000 in accordance with the Balanced Budget and Emergency Deficit Control Act, P.L. 99-177, and a rescission of $45,884,000 as contained in the President's FY 1987 Budget.

Grants to States

Authorizing legislation - Title IV, Parts A and C, of the Social Security Act, as amended.

1986 Appropriation	1986 Available after Sequestering	1986 Revised Estimate	1987	Increase or Decrease
$212,000,000	$202,884,000	$157,000,000 1/	---	-$157,000,000

1987 Authorization...Indefinite

Purpose and Method of Operations

The Grants to States activity provides for employment, training, and social services to recipients of and applicants for Aid to Families with Dependent Children (AFDC). These individuals are required to register with the Work Incentive Program (WIN) which is intended to assist them to find unsubsidized employment and, eventually, self-sufficiency, thereby reducing welfare assistance costs.

The Grants to States portion of the WIN appropriation is distributed to States by formula. WIN legislation requires that one-half of the employment and training funds be distributed to States based on the number of WIN registrants. The remainder of the funds is distributed on the basis of performance criteria which emphasize job placements and reductions in welfare payments. The legislation also requires that the allocations for States operating WIN Demonstration Programs be based on the States' "initial annual Fiscal Year 1981 allocation." The States' WIN plan specifies the use of funds to carry out the work registration requirement, and the other employment and social services necessary to help registrants attain unsubsidized employment. In addition, the State Plan documents the 10 percent State match required for the respective employment and social services costs.

Fiscal Years 1981-1986 Funding

1981	$350,960,000	1984	$256,760,000
1982	$266,760,000	1985	$256,760,000
1983	$256,760,000	1986	$202,884,000

1/Reflects a proposed rescission of $45,884,000.

Rationale for the Budget Request

Consistent with the President's overall budget policy to phase out the WIN program by the end of Fiscal Year 1986, no funds are requested for the Grants to States activity in Fiscal Year 1987.

Program Accomplishments

The "Selected WIN Data" table illustrates actual data for FY 1984; actual (nine months) and estimated (three months) for FY 1985; and estimated data for the three funding levels in FY 1986. WIN has registered one million new registrants, about 33-35 percent of these have found unsubsidized employment, of which 63 percent remained in a job after six months.

Several States have used the flexibility under the WIN Demonstration approach to develop successful work alternatives to the regular WIN program: for example, the Massachusetts Employment and Training Program (ET) has focused on job training for volunteers; the New York "Employment Opportunities" program stresses "one-stop shopping" for job referral, counseling, and training services at one location; and the California "Greater Avenues for Independence" (GAIN) program emphasizes the sequence of placement components starting with "job search".

A review of 28 Regular State WIN Plans for 1985 reveals that 28 State WIN coordinators are using the resources of the Job Training Partnership Act (JTPA), and 24 States are using the Social Services Block Grant. In addition, 22 State WIN programs are using the Community Work Experience Program (CWEP) in selected areas to enable registrants to gain work experience.

Work Incentives

Selected WIN Data

(54 State Agencies)

WIN Regular and Demonstration Program

	1984 Actual	1985 Actual	1986 Appropriation	1986 after Sequestering	1986 Current Estimate
1) Budget Authority (Grants to States)	$259,194,000	$258,099,000	$212,000,000	$202,884,000	$157,000,000
2) AFDC Families _a/	3,726,000	3,685,000	3,691,000	3,691,000	3,691,000
3) New WIN Registrations _b/	1,015,763	1,013,000	900,000	870,000	750,000
4) Individuals finding unsubidized jobs	354,396	339,678	270,000	260,000	187,500
5) Six month retention _c/ (Adjusted for GAO (recommendations)	60.5%	63.5%	63.5%	63.0%	63.0%
6) Persons off welfare _d/ because employed	178,290	169,839	135,000	130,000	93,750

_a/ AFDC families based on data from the Social Security Administration.
_b/ Registrations: FY1985, 31 WIN Regular, 23 WIN Demo States;
FY1986, 28 WIN Regular, 26 WIN Demo States.
_c/ Retention: Proportion of persons in unsubsidized employment still employed six months later.
_d/ Off welfare employed: Individuals whose earnings at job entry enabled them to be removed from the AFDC rolls.

Program Direction and Evaluation

Authorizing Legislation - Title IV, Part C of the Social Security Act, as amended.

1986 Appropriation		1986 Available after Sequestering		1986 Revised Estimate[1]		1987		Increase or Decrease	
FTE	BA	FTE	BA	FTE	BA	FTE	BA	FTE	BA
90	$8,000,000	90	$7,656,000	79	$7,656,000	---	---	-79	-$7,656,000

1987 Authorization..Indefinite

Purpose and Method of Operations

The program direction and evaluation (PD&E) activity provides Federal support necessary for overall program development, administration, and evaluation. Funding for this activity provides for the salaries and expenses for a total of 90 support positions in the Departments of Labor and Health and Human Services in both the National and Regional Offices, as well as contractual assistance and in-house services for program evaluation, technical assistance and training, and postage.

Fiscal Years 1981 - 1986 Funding

1981	$14,000,000	1984	$14,000,000
1982	$14,000,000	1985	$10,000,000
1983	$14,000,000	1986	$ 7,656,000

Rationale for the Budget Request

Consistent with the Administration's decision to phase out the WIN program by the end of Fiscal Year 1986, no funds are requested for the program direction and evaluation activity in Fiscal Year 1987.

Closeout activities will extend part-year into 1987. In 1987, funding for WIN staff at the Department of Labor to conduct the closeout of the WIN program appears in the Program Administration account of the Employment and Training Administration at the budgeted level of 4 FTE and $220,000. Change entries from 1986 to 1987 for DOL salaries and expenses for WIN appear in that budget. Funding for Department of Health and Human Services Federal staff associated with WIN closeout activities in 1987 will be provided from regular salaries and expenses accounts servicing the Office of Human Development Services and Office of Family Assistance respectively.

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[1] Excludes a transfer of DOL salaries and expenses to the Program Administration account of the Employment and Training Administration of 49 full-time equivalent (FTE) positions and a net $2,998,000 of budget authority.

Summary of Changes

	FTE	Budget Authority
1986 Appropriation............................	90	$ 8,000,000
1986 Sequester order..........................	---	-344,000
1986 Effect of Rescission -- (Reflects reduced funding available for DOL WIN staffing due to the proposed phaseout of the WIN program)..............................	-11	-429,000
1986 Balance returned from DOL ETA Program Administration for 11 WIN FTE not required. This amount is to be used for technical support to States for the phaseout and grant closeout of the WIN Program..........................	---	+429,000
Subtotal, adjusted budget authority/FTE	79	7,656,000
1987 Request..................................	---	---
Total Decrease	-79	-7,656,000

Work Incentives

Detail of Permanent Positions

	1985	1986 1/	1987
GS/GM-15	4	4	---
GS/GM-14	16	16	---
GS/GM-13	21	19	---
GS-12	27	27	---
GS-11	5	5	---
GS-9	1	1	---
GS-8	1	1	---
GS-7	5	4	---
GS-6	4	3	---
GS-5	6	6	---
GS-4	2	2	---
GS-3	2	2	---
Total permanent positions	94	90	---
Unfilled positions, end-of-year	-7	---	---
Total permanent employment, end-of-year	87	90	---

1/ Includes 44 DOL budgeted positions which would be eliminated under the Administration's proposal to rescind new financing in the last quarter of Fiscal Year 1986.

STATE TABLES

Work Incentives

Grants to States 1/

State or Outlying Area	1985		1986		1987
TOTAL	$258,099,200	2/	$137,000,000	3/	--
ALABAMA	2,327,898		1,452,685		--
ALASKA	923,767		415,870		--
ARIZONA	1,805,973	*	1,104,291	*	--
ARKANSAS	1,481,344	*	905,792	*	--
CALIFORNIA	35,258,877	*	21,506,096	*	--
COLORADO	4,958,003		2,323,761		--
CONNECTICUT	3,761,000		2,278,891	*	--
DELAWARE	872,831	*	533,707	*	--
DIST. OF COL.	2,568,173		1,433,983		--
FLORIDA	3,879,456	*	2,372,155	*	--
GEORGIA	4,269,059	*	2,589,258	*	--
HAWAII	1,353,943		921,426		--
IDAHO	2,349,935		1,030,168		--
ILLINOIS	12,691,195	*	7,760,234	*	--
INDIANA	3,336,777		2,040,326	*	--
IOWA	2,770,818	*	1,694,261	*	--
KANSAS	1,924,747		1,155,159		--
KENTUCKY	2,327,010		1,548,603		--
LOUISIANA	1,906,731		1,149,296		--
MAINE	1,444,438	*	883,225	*	--
MARYLAND	4,856,518	*.	2,969,595	*	--
MASSACHUSETTS	8,463,784	*	5,175,316	*	--
MICHIGAN	18,503,587	*	11,314,313	*	--
MINNESOTA	5,159,001		3,150,859		--
MISSISSIPPI	1,789,548		1,195,265		--
MISSOURI	3,657,789		2,228,154		--
MONTANA	595,982		722,459		--
NEBRASKA	887,460	*	542,651	*	--
NEVADA	744,789		456,286		--
NEW HAMPSHIRE	635,129		324,368		--
NEW JERSEY	9,808,991	*	5,997,864	*	--
NEW MEXICO	1,079,717		654,117		--
NEW YORK	22,185,463	*	13,568,675	*	--
NORTH CAROLINA	4,103,432		2,229,627		--
NORTH DAKOTA	718,400		351,630		--

State or Outlying Area	1985		1986		1987
OHIO	14,509,991		8,741,846		--
OKLAHOMA	1,545,221	*	944,850	*	--
OREGON	7,138,420	*	4,364,901	*	--
PENNSYLVANIA	11,654,971	*	7,126,618	*	--
RHODE ISLAND	1,320,866		891,907		--
SOUTH CAROLINA	1,986,665		1,125,990		--
SOUTH DAKOTA	1,101,448	*	673,499	*	--
TENNESSEE	2,640,210		1,540,710	*	--
TEXAS	5,308,214	*	3,245,792	*	--
UTAH	2,795,335		2,346,387		--
VERMONT	1,972,308		1,176,615		--
VIRGINIA	3,680,904	*	2,250,747	*	--
WASHINGTON	10,269,797		6,765,026		--
WEST VIRGINIA	3,533,726	*	2,160,753	*	--
WISCONSIN	10,111,167	*	6,182,635	*	--
WYOMING	517,526		245,118		--
GUAM	347,882		116,665		--
PUERTO RICO	1,575,676		959,803		--
VIRGIN ISLANDS	287,348		159,773		--

* Demonstration States

1/ Awards for employment and training activities and social services.

2/ State allocations reflect Congressionally approved reprogramming.

3/ Reflects a reduction of $9,116,000 pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, P.L.99-177, and a proposed rescission of $45,884,000.

FRIDAY, APRIL 18, 1986.

GENERAL DEPARTMENTAL MANAGEMENT

WITNESSES

S. ANTHONY McCANN, ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET

THOMAS S. McFEE, ASSISTANT SECRETARY FOR PERSONNEL

DENNIS P. WILLIAMS, ACTING DEPUTY ASSISTANT SECRETARY FOR BUDGET

JOHN T. HOPKINS, DIRECTOR OFFICE OF THE SECRETARY BUDGET SERVICES

Mr. NATCHER. At this time, we take up the budget request for General Departmental Management. We have before the committee Mr. S. Anthony McCann. Mr. McCann, it is a pleasure to have you before the committee.

Before you give us your statement, tell us who you have with you at the table there.

Mr. McCANN. Mr. Chairman, I have Tom McFee, Assistant Secretary for Personnel. I have Dennis Williams, my Deputy for Budget; and Mr. Hopkins, who handles the Departmental Management accounts.

Mr. NATCHER. We will be pleased to hear from you.

SUMMARY OF BUDGET REQUEST

Mr. McCANN. Thank you, Mr. Chairman.

I have a statement which we have submitted to you, and I would have a few comments for the record.

Mr. Chairman, the budget request that we have submitted to you will provide the funding needed to operate the General Departmental Management components of the Department of Health and Human Services, and as such, it is based upon management improvements and efficiencies instituted over the last two years.

The appropriation request of $108,319,000, and 2,242 full-time equivalent staff, represents a decrease of $10,140,000 and 48 FTEs from the 1986 comparable level.

With trust funds included, the total request for General Departmental Management is $135,819,000, and comparable 1986 funding level was $126,115,000.

As indicated, the budget request assumes a reduction in full-time equivalents. This reduction in personnel will be achieved by managing hiring and employment of the Office of the Secretary.

As you know, Secretary Bowen has indicated he expects to have no layoffs or reductions-in-force.

Offsetting the dollar savings from the FTE reductions are built-in increases for general inflation costs, for salary increases and for continuing selected management improvement projects.

Mr. Chairman, one of our largest increases is in the area of rent, or SLUC. In spite of the fact we have reduced our space utilization by 160,000 square feet, our rent will increase this year by 18 to 19 percent.

The net effect is, in spite of the reduction in space utilization, our rent budget is increased by almost $1,000,000.

Our Fiscal Year 1987 budget request continues funding for special projects that were underway in Fiscal Year 1986, but delayed due to the sequestration actions that took place as a result of the Emergency Deficit Control Act.

These projects include the Financial/Administrative Integrated Management System, or FAIMS, designed to reduce the Department's accounting, procurement and related management systems, by eliminating competing outdating or overlapping systems.

Funding is also continued for the personnel consolidation and automation initiative designed to reduce the number of separate personnel offices in the Department by automating certain personnel and payroll workloads.

Each of these projects promises to reduce Federal administrative costs throughout the Department, while improving the quality and timeliness of accounting, procurement, personnel, and payroll support services.

In addition to the $108,319,000 in direct appropriations in the Fiscal Year 1987 budget justification, we are also requesting $27,500,000 in transfers from the Social Security and Medicare trust funds.

The $27,500,000 in transfers will defray the costs of payroll, personnel management, accounting and other services provided by the Office of the Secretary to the Social Security and Medicare programs.

This transfer represents an increase of $19,500,000 over the Fiscal Year 1986 level, and is justified by significant payroll payment, management and other workloads performed on behalf of the trust fund.

Mr. Chairman, this increase in trust fund transfers reflects a more accurate accounting of the value of the services already being provided to the trust funds by the Office of the Secretary.

The requested increase in transfers brings the Departmental Management appropriation transfer into line with other similar circumstances in the Office of the Inspector General and the Office for Civil Rights, both of which have increased their transfers in recent years.

The resources requested in this appropriation support those activities that are associated with the Secretary's role as a policy officer in the Departmental Management, and as well as those that provide specialized staff support for the operating division.

No amounts for new major program initiatives are included. The resources requested will allow the Secretary to carry out his responsibilities and permit effective and timely centralized support services, while meeting the President's goals of reduced Federal spending and a smaller burden to the taxpayers.

That concludes my remarks.

[The statement of Mr. McCann follows:]

Mr. Chairman and Members of the Committee:

My name is Tony McCann and I have recently been named the Assistant Secretary for Management and Budget. This is my first appearance before this Committee. Therefore, I am pleased to be here before you today to present the FY 1987 budget request for the General Departmental Management appropriation of the Department of Health and Human Services.

This budget request represents the resource requirements needed to operate the General Departmental Management components in the second year following the streamlining which occurred in FY 1985. As such, it is based upon the management improvements and efficiencies which have been instituted over the past two years. The appropriation request of $108,319,000 and 2,242 full-time equivalent (FTE) staff is a decrease of $10,140,000 and 48 FTEs from the comparable FY 1986 level. Added to the requested transfers from the Trust Funds, total resources in FY 1987 will be $135,819,000 compared to the FY 1986 post-sequestering level of $126,115,000.

The reduction of personnel will be achieved by managing hiring and employment in the Office of the Secretary Staff Divisions. The FY 1987 budget justification reflects this management policy through staff reductions below the FY 1985 level and the post-Gramm-Rudman-Hollings FY 1986 figure. Offsetting the dollar savings from the FTE reductions are built-in increases for meeting general inflation costs, for salary increases and for continuing selected management improvement projects.

Our FY 1987 budget request continues funding for special projects activities underway in FY 1986 but delayed due to budget reductions required under the FY 1986 sequestration provisions of the Gramm-Rudman-Hollings legislation. These projects include: (1) the Financial/Administrative Integrated Management System (FAIMS), designed to reduce the cost of the Department's accounting, procurement, and related management systems by improving their efficiency and by eliminating competing, outdated, or overlapping existing systems: and (2) the Personnel Consolidation and Automation initiative, designed to reduce the number of separate Servicing Personnel Offices in the Department and, through the use of computers, to carry out more efficiently certain personnel and payroll workloads. Each of these projects promise to reduce Federal administrative costs throughout the Department's Operating Divisions while improving the quality and timeliness of accounting, procurement, personnel and payroll support services.

In addition to the $108.3 million in direct appropriation the FY 1987 budget justification requests that $27,500,000 be transferred to General Departmental Management from the Social Security and Medicare trust funds. The $27,500,000 in transfer will defray the cost of payroll, payment management, accounting and other services provided by the Office of the Secretary in support of the Social Security and Medicare programs. The $27,500,000 represents an increase of $19,500,000 over the FY 1986 transfer level, and is justified by the significant payroll, payment management and other workloads performed on behalf of the Trust Fund programs. This increase in trust fund transfers does not mean that the amount of Trust Fund-related services provided by the Office of the Secretary will increase substantially from FY 1986 to FY 1987, but rather simply reflects a more accurate accounting of the value of such services already being provided on the behalf of the Social Security and Medicare programs. The requested increase in transfers brings the GDM appropriation in line with other Departmental Management appropriations (Office of the Inspector General, Office for Civil Rights) that have increased trust fund transfers in recent years in order to more accurately reflect the portion of their work performed on trust fund activities.

Resources requested in this appropriation support those activities that are associated with the Secretary's roles as policy officer and general departmental manager, as well as those that provide direct specialized staff support services performed on a centralized basis in the OS for the Operating Divisions. No amounts for new programs or major new initiative are included. The resources requested will allow the Secretary to carry out his responsibilities, as well as permit efficient and timely centralized support services, while meeting the President's goals of reduced Federal spending and a smaller deficit burden to the taxpayer.

In many ways the managerial improvements made over the past several years have eased the transition of the OS into the Gramm-Rudman-Hollings era. By the elimination of overlapping responsibilities, reductions in staff levels, emphasis on the use of automation to achieve productivity gains, and the commitment to providing services efficiently, the OS has anticipated many of the organizational changes made necessary by this legislation. Yet much of what we began in the last two years remains to be done. The FY 1986 sequestration order has meant the delay of the two special projects which I described earlier. Completion of these projects is absolutely essential to achieve future reductions in administrative costs throughout the Department.

The level of resources requested in this appropriation will continue to build OS operations on modern management principles while reducing the cost to the taxpayer of unnecessary and duplicative overhead expenses.

I urge your approval of this request and thank you for your consideration.

GRAMM-RUDMAN SEQUESTRATION

Mr. NATCHER. Thank you, Mr. McCann.

For 1986, you show $5,867,000 as being sequestered under this appropriation account. Was this reduction applied uniformly among all parts of the Secretary's Office?

Mr. HOPKINS. Mr. Chairman, it was applied uniformly across all staff divisions in the Office of the Secretary.

Mr. NATCHER. What about payments to the General Services Administration for rental space? Was this reduced by the same percentage?

Mr. HOPKINS. In the General Departmental Management appropriation it was not reduced. The payment to GSA for SLUC or rental space is a fixed cost, and we are not able to reduce those in mid-year as we are in other cost items.

Mr. NATCHER. How were your contractual services affected by sequestration? Did you have to renegotiate any of your contracts?

Mr. HOPKINS. A number of contracts and discretionary procurement activities during the course of Fiscal Year 1986 had been either deferred until Fiscal Year 1987 or cancelled altogether.

Contracts of that nature include maintenance of rental equipment, supplies acquisition, new equipment, so forth.

Mr. NATCHER. Did you have to pay penalties for renegotiating any of your contracts?

Mr. HOPKINS. We may have to amplify for the record, Mr. Chairman, but there may have been one or two cases where penalties had to be paid.

[The information follows:]

CONTRACT PENALTIES

Through April, 1986, the Office of the Secretary has not had to pay any contract penalties for renegotiating contracts as a result of FY 1986 Gramm-Rudman-Hollings sequestering. No penalties are expected during the remainder of the fiscal year.

PROPOSED FY 1986 RESCISSION

Mr. NATCHER. Your budget also proposes a rescission of $19,619,000 relating to AIDS demonstration projects and a cancer construction project. The rescission request has expired, and Congress has taken no action on this request.

What steps will be taken to now obligate these funds?

Mr. MCCANN. We have sent the apportionment request to OMB and received it back. We have also had discussions with NIH, and the Public Health Service, since we will, in effect, transfer the money to them, and allow them to administer it for us.

Mr. NATCHER. Will you be able to obligate these funds by the end of Fiscal Year 1986?

Mr. MCCANN. Yes, sir, we will.

ASSESSMENT OF OFFICE OF THE SECRETARY STREAMLINING

Mr. NATCHER. Two years ago, as you know, a major plan to streamline the Secretary's Office was initiated. At the time, the plan called for a reduction of nearly 1300 positions. Has the new

Secretary made any assessment of this plan, and its effect on the Office of the Secretary?

Mr. McFee. Those reductions were made. We continually take a look at performance of the Office of the Secretary, and look for further ways to streamline and make the operation more effective.

The Secretary is right now looking at a possible restructuring of some of the staff offices in the Office of the Secretary to see if we can maintain the high level of service that we have in the past.

If anything does come out of this, it would be further delegation of functions to our operating divisions.

Mr. Natcher. Do you know if the Secretary is planning to reorganize the Office of the Secretary?

Mr. McFee. He does have some broad goals, and we are in preliminary stages right now to cost them out, and to look at alternatives.

It would involve some moves of functions between different Office of the Secretary staff offices. As I said, any plans are still in preliminary stages. We are still talking about it.

There is no final word that I can give you at this time. I do want to assure you that once the decisions are made, we will come back to the committee and fill you in on it completely .

It would have no-cost or no-budget implications, since movement of functions would be between staff offices.

REDUCTIONS IN FORCE

Mr. Natcher. Are you planning any reductions-in-force during 1986 or 1987?

Mr. McFee. No, we have no plans for reductions-in-force.

If there are any reductions in staff, we will take that through managing our hiring.

USE OF CONSULTANTS

Mr. Natcher. As a result of staff reductions over the past two years, what increases have been necessary in the use of private contracts or consultants?

Mr. Hopkins. The Office of the Secretary has not increased its reliance on private contractors. The reductions that have been made under streamlining in the General Departmental Management appropriation were not made for the purpose of moving to the private sector, and have not resulted in that.

Mr. Natcher. On page 55 of your justification, as far as consulting services are concerned, you show an increase from 1985 of $6,220,000, going up to $7,730,000 proposed for 1987. Why do you need an increase in consultants? You have a lot of smart people down there.

Mr. Hopkins. Almost all of that increase is associated with the evaluation activities conducted by the Office of the Assistant Secretary for Planning and Evaluation. The increase from 1985 to 1987 reflects increases in evaluation projects from 1985 spending to the proposed 1987 budget.

We are issuing contracts to the private sector to evaluate HHS programs. Those evaluations can be used by the Secretary and the operating divisions to better formulate policy, to better manage the programs of the Department and so forth.

We are not going out and seeking experts in order to appoint consultants to supplant Federal employees. So, as I said, that increase is largely associated with the evaluation activities of Planning and Evaluation.

REQUEST FOR OTHER SERVICES

Mr. NATCHER. For 1987, you are requesting $18,926,000 for "other services". This is an increase of $6,254,000 over 1986 funding. How much of this increase is for the purpose of offsetting staff reductions?

Can you tell us?

Mr. HOPKINS. Mr. Chairman, virtually none of that increase is for the purpose of offsetting staff reductions. The increase in large part is to restore one-time reductions that were made in Fiscal Year 1986 because of the Gramm-Rudman-Hollings sequestration.

The heaviest pieces of that increase in the other service category from 1986 to 1987 is associated with the two special projects that Mr. McCann noted in his testimony—the FAIMS project and the personnel automation effort.

Those projects were reduced during the course of Fiscal Year 1986, when the General Departmental Management appropriation experienced the Gramm-Rudman-Hollings reductions, and we are seeking restorations of those reductions in Fiscal Year 1987, to keep those projects on track.

Mr. NATCHER. Mr. Conte?

Mr. CONTE. Mr. McCann, I also want to welcome you here on your first trip before the Subcommittee. I see from your vita that you were born here in the District and have served in many of its institutions, including that one on the other side of the Capitol. With that kind of history, you should feel at home with us.

How long have you served now as Assistant Secretary?

Mr. MCCANN. Four weeks, sir.

NEED FOR REORGANIZATIONS

Mr. CONTE. I realize that a month or so isn't very much time, but have you considered the need for any changes or reorganizations as yet?

Mr. MCCANN. In my offices, no, sir. The Secretary has begun thinking about possible reorganizations in the Office of the Secretary generally.

Those are presently under consideration, and there is no final decision, in fact, other than some initial ideas. We haven't moved much further. If we do move forward, we will certainly discuss it with the committee.

In addition, the one thing I can say is, it would have no cost to the taxpayer and would not result in any personnel reductions in the Office of the Secretary.

REGIONAL OFFICE REDUCTION

Mr. CONTE. I noted in the justifications that you are proposing a reduction of about 25 percent in what is called field management. What is field management? Is this the regional offices?

Mr. McFEE. The field management account is comprised of a Regional Director and a very small staff in each of our 10 Regional Offices.

The staff right now is about six or seven in each region. Our approach to the streamlining of our regional structure is to reduce further the size of that Regional Director staff down to a total of three.

A Regional Director, a secretary, and one staff assistant. We are planning on implementing this reduction between now and the end of this fiscal year by outplacement of these individuals in other positions in the Department.

We will finish up with a field management staff of 30 in the regions, and nine in the headquarters, and they provide the overall field direction and act as the eyes and ears of the Secretary in those 10 offices.

Mr. CONTE. We talked some last year with your predecessor, Mr. O'Shaughnessy, about the regional offices, and he told us the Department was only in the phase of studying this issue. Are you proposing to severely cut or close down any regional offices now, under this budget? And if so, why?

Mr. McFEE. We completed that study, and instead of closing down any of the 10 regional offices entirely, we decided to take a look at the individual operations in each of those 10 regions. We do plan to move some functions from one region to the other, or consolidate functions, but not close an entire regional office.

Instead of totally eliminating a regional office, we would be streamlining the components within that regional office.

Mr. CONTE. This idea of streamlining, bringing them down to three, is that your idea, or is that OMB's?

Mr. McFEE. Pretty much our idea, as part of the overall approach.

Mr. CONTE. Let me follow up on that. Do you think by bringing staff down to three in each regional office, it will more or less stabilize the situation for, say, 5, 10 years?

Mr. McFEE. I believe that we need to continually look at these functions and the nature of our programs, and how they change over time.

I am sure you are aware that we have gone through a transition over the last 10 years from programs that were very much Federally managed to the concept of block grants. As you look at that change and how we manage our programs, and what the Federal responsibility is, there is going to be, in my mind, the need to continually look at our field structure to support the new way of operating.

I can't guarantee that we won't shrink further. I think we possibly will, as the Congress makes further changes in programs, that we need to adopt our management and field structure to support those new programs.

RENT COSTS

Mr. **Conte**. What are you budgeting for rent charges in 1987? And how does that compare with 1986?

Mr. **McCann**. $18,500,000, which is about a million higher than the previous year. We will have reduced our space utilization by about 160,000 square feet, but the rental charges from GSA will increase by about 18 percent. So the net effect is an increase of about $1,000,000.

Mr. **Conte**. Is that about rock bottom now in your reductions?

Mr. **McCann**. I believe we are going to continue a little bit further.

Mr. **Conte**. If you go down to three in your regional offices, won't you have to cut some square footage there?

Mr. **McCann**. That is correct.

Mr. **Conte**. Do you have any set plan on how much square footage per employee is appropriate?

Mr. **McCann**. The Reform'88 proposals from the President propose an average of 135 square feet per person, and we will attempt to meet that. In fact, we plan to meet it on schedule.

TRUST FUND TRANSFERS

Mr. **Conte**. Your budget shows a big increase in transfers from the trust fund accounts. How do you estimate the workload attributable to the trust funds, and how is that calculated into dollars?

Mr. **McCann**. We have tried to get a better handle on the workloads that the Office of the Secretary carries out for the trust fund programs, and to better reflect them in the budget. I believe Mr. Hopkins can respond in more detail.

Mr. **Hopkins**. Mr. Conte, the Office of the Secretary provides a number of administrative support services to trust fund employees and the trust fund programs. Among those services are payroll services.

The Office of the Secretary processes all of the paychecks for all of the Social Security and Health Care Financing Administration employees in the Department who work on Social Security and Medicare.

Personnel services, which include classification, position review and the like, are also provided centrally for many of the Social Security and Health Care Financing employees.

Also centralized in the Office of the Secretary are legal support services, which benefit the Medicare program and Social Security, whether the legal services support is through litigation, legal advice, consultation, regulations development or whatever;

In addition to that, there are what might be described as housekeeping services, such as messenger services, mail delivery, and the like. These are also provided through the General Departmental Management for the Social Security Administration and HCFA components.

The Social Security Act itself authorizes these transfers under section 201(g) of Title II. Where the government can find a cheaper way to provide economical services centrally rather than have disparate agencies providing the same service, the Act recognizes that economy. What you see before you today in our request is a slightly higher payment from the trust funds to reimburse the General Departmental Management for services rendered.

There is no major increase in services provided. The change that you see before you, from, $8,000,000 to $27,500,000, simply more closely approximates the true value of those services that are provided.

Mr. CONTE. You are asking for about a 250-percent increase in trust funds for 1987. Do you think we will continue to see increases like that in future years, or is the formula for calculating these costs now correct, so these increases will be essentially inflationary?

Mr. MCCANN. Mr. Chairman, I think it would be inaccurate to say we have a formula at this point. We have tried to estimate it as best we can. I have asked Mr. Hopkins to see if we can come up with a better way of actually allocating costs.

I certainly do not expect increases of this magnitude in the future. There are many kinds of activities which are very hard to allocate among the various trust funds and regular appropriated accounts. But I certainly do not expect this magnitude of increase again.

Mr. CONTE. Can you provide me with a chart showing for each management account in the Department how much has come from the trust funds over the past five years?

Mr. MCCANN. Yes, sir. We will provide that.

[The information follows:]

TRUST FUND TRANSFERS TO MANAGEMENT ACCOUNTS OVER THE PAST 5 YEARS

[Dollars in thousands]

Appropriation account	Fiscal year—				
	1982	1983	1984	1985	1986
General Departmental Management	$7,680	$8,000	$8,000	$8,000	$7,656
Office of Inspector General	5,761	6,000	6,000	20,000	28,710
Office for Civil Rights	2,255	2,350	2,350	2,350	3,828
Office of Assistant Secretary for Health			1,050	1,050	1,050
Total	15,696	16,350	17,400	31,400	41,244

EFFECT OF GRACE COMMISSION RECOMMENDATIONS

Mr. CONTE. We are essentially now in the third year of the Grace Commission report, the time when all the really big savings are supposed to have occurred. Do you think that Grace Commission recommendations have been a success at HHS?

Mr. MCCANN. Yes, sir, my impression is that they have. We have undertaken a number of the reforms that they proposed, and they have been very helpful in both helping us to reduce the size of the Office of the Secretary, making it more efficient. Some of the automation activities we proposed are a result of the Grace Commission recommendations.

Mr. CONTE. Can you provide me with chart showing for each of the recommendations adopted by the Department, what the Grace

Commission three-year estimated savings was, and how that compares to what you have actually achieved?

Mr. McCANN. Certainly.

[The information follows:]

The information requested on estimated three-year savings of adopted Grace Commission recommendations has been provided to the Subcommittee.

COLLECTION OF USER FEES

Mr. CONTE. Do you have any figures showing for the programs under this Subcommittee's jurisdiction how much is collected annual in user fees?

Mr. McCANN. I do not have that, but we will provide it for the record, sir.

[The information follows:]

DEPARTMENT OF HEALTH AND HUMAN SERVICES

USER CHARGES

(In thousands of dollars)

	FY 1985	FY 1986	FY 1987
1. Non-clinical Services			
Public Health Service			
Health Resources and Services Administration			
Health Maintenance Organization, Competitive Medical Plans, and Hill-Burton Loan Modifications...	---	---	$10,000
Food and Drug Administration			
Revolving Fund for Certification:			
Insulin certification..........	623	613	658
Color certification............	1,527	1,503	1,610
Freedom of information...........	378	400	400
Tea examination..................	46	50	50
Supv. article reconditioning.....	135	150	150
New Drug Application reviews.....	---	--	25,800 1/
Total, FDA.......................	2,709	2,719	28,668
Centers for Disease Control			
Training to State & local Govt. and respirator testing..........	1,045	1,100	1,100
Reference reagents and proficiency testing............	---	466	466
Total, CDC.......................	1,045	1,566	1,566
National Institutes of Health			
National Library of Medicine.....	8,179	9,500	10,200 2/
Office of the Asst. Secy. for Health			
National death index and data tape sales.....................	34	109	109 3/
Total, Public Health Service.........	11,967	14,991	50,543
Social Security Administration			
Limitation on Admin. Expenses			
Requests for earnings, determination of medical eligibility, health and mortality studies, statistical information.........	1,820	3,957	4,191
Child Support Enforcement			
Parent locator services..........	35	58	61
Total, Non-clinical Services.............	$13,822	$19,006	$54,795

USER CHARGES CHART CONTINUED

	FY 1985	FY 1986	FY 1987	
2. Clinical Service Reimbursements from Third Parties				
Public Health Service				
Health Resources & Services Admin.				
National Health Service Corps....	$4,243	$4,544	$3,000	4/
Alcohol, Drug Abuse and Mental Health Administration				
St. Elizabeths Hospital..........	78,583	87,385	100,401	
Total, Clinical Services.................	82,826	91,929	103,401	
TOTAL, HEALTH AND HUMAN SERVICES.........	$96,648	$110,935	$158,196	

1/ For 1987, FDA is proposing (1) to collect user charges for the full cost of major components of new drug application review (approximately $26 million), and (2) to retain all of the collections in its 1987 operating appropriations account.

2/ Prior to FY 1984, foreign MEDLARS users compensated the National Library of Medicine (NLM) on a quid-pro-quo basis; now, fees are collected by the National Technical Information Service, just as they are for domestic users. On April 1, 1985, NLM began charging foreign users (non-U.S. taxpayers) at a higher rate than U.S. customers.

The fiscal year 1987 budget proposes that the NLM retain up to $20 million in collections to offset general operating expenses. Presently, revenues are utilized to pay for MEDLARS access costs not included in the NLM appropriation. The difference between collections and such expenditures is returned to the Treasury.

3/ OASH user charges comprise fees collected for the extraction of National Death Index data.

4/ National Health Service Corps (NHSC) program authorizations require that the Federal Government be appropriately reimbursed by the NHSC health clinics who employ these federally salaried health providers. The estimates for 1986 and 1987 are reflective of anticipated reductions in the number of federally salaried NHSC providers who are practicing at these sites.

DELAYS DUE TO SEQUESTER ORDER

Mr. CONTE. In your statement you mention two ongoing projects that will be delayed in 1986 because of Gramm-Rudman. Tell us about those projects, what they are designed to do, and what effect the delay will have?

Mr. MCCANN. I can do that for the record, also. I am sure Mr. McFee could speak to that. In the case of FAIMS, sir, the Department has a disorganized accounting system that derives from each of the operating agencies.

The purpose of FAIMS is to create a single organized accounting and management system. As a result of the process that was engaged in last year, we attempted to seek bids on parts of that activity.

The bid activity was found by the Comptroller General to be flawed, and we are going back to review the entire system.

In this sense we have not been slowed up too much by the loss of funds because of that problem with the bidding, but we are hoping to get underway next year.

With respect to the personnel activities, let me refer to Mr. McFee.

Mr. MCFEE. We originally had approximately $3,000,000 in the Departmental Management budget for FY 1986 for the upgrading of our personnel system, and that was, through sequestering, reduced to a little over $200,000.

We had planned on purchasing some equipment out of the three million dollars, and we have had to slow down the delivery of the equipment in order to absorb some of the reductions.

We also have transferred some of the programming to our inhouse staff and are doing more with our own people and less contracting, which we had planned to have as part of our software effort.

Also, because this personnel system is a system for the entire Department, and not just the Departmental Management, we were also able to spread some of those cost reductions to our operating divisions, and we have been able to continue some of the equipment purchases through that approach.

I do not believe that the delay in the expenditure of funds will impact on our ability to finish that project on time and realize the savings that we had planned.

TRAVEL BUDGET

Mr. CONTE. What are you budgeting for travel in 1987, and how does that compare with 1986?

Mr. MCCANN. About $1,000,000, less than $100,000 increase over last year.

Mr. CONTE. It is an increase, though?

Mr. MCCANN. Yes, sir.

VEHICLES IN HHS

Mr. CONTE. How many vehicles in the Department?

Mr. MCCANN. About a dozen in this appropriation, sir. Did you want the whole Department or this appropriation?

Mr. CONTE. The whole Department.

Mr. MCCANN. We will have to provide that for the record, sir.

Mr. CONTE. Find out how that compares with last year.

[The information follows:]

VEHICLES IN HHS

The Department of Health and Human Services will use 3,898 vehicles in FY 1986. Current projections are that this number should remain relatively constant in FY 1987.

Mr. CONTE. Do you use any consulting services?

Mr. MCCANN. I don't think so. I haven't found any yet.

Mr. CONTE. Thank you, Mr. Chairman.

SERVICES PROVIDED TO TRUST FUNDS

Mr. NATCHER. Does the Social Security Administration agree that the Secretary's Office is providing services amounting to $27,500,000? Any disagreement or any problem?

Mr. HOPKINS. We are not aware of any disagreement, Mr. Chairman.

Mr. NATCHER. For the record, supply a detailed analysis of trust fund activity in the Secretary's Office for 1986 and 1987. Show the specific offices involved, the number of staff, dollar amount and any other information you have available to justify the request.

Mr. MCCANN. Thank you, sir.

[The information follows:]

Trust Fund Services by STAFFDIV and Type of Service

($ in 000s) (Rev. 3/20)

	Direct Service Costs			Indirect Costs (RENT, etc.)	Total Costs: costs/(FTE)
	SSA	Medicare	Subtotal, Direct		
IOS.....	$408	$407	$815	$41	$856/(18)
ASL.....	150	150	300	41	341/(5)
PA......	169	337	506	24	530/(12)
ASPE....	300	350	650	98	748/(12)
ASPER:					
HQ.....	8,600	460	9,060	1,223	10,283/(150)
Field..	10,440	300	10,740	2,511	13,251/(308)
ASMB:					
HQ.....	620	540	1,160	171	1,331/(21)
Field..	2,200	600	2,800	587	3,387/(72)
OGC.....	4,320	3,640	7,960	1,239	9,199/(152)
DUSIGA..	950	680	1,630	237	1,867/(29)
	$27,830	$6,970	$34,800	$6,172*	$41,793/(779)

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*Based on one-third of SLUC budget, since the FTE benefitting the Trust Funds is one-third of Total GDM's FTE.

Description of Principal Services

Immediate Office - policy/management direction; correspondence control

Legislation - leadership/coordination of HHS legislative program

Public Affairs - HHS management of Privacy Act/Freedom of Information Act; promotion of Social Security/Medicare programs.

Planning/Evaluation - coordination of planning; development of legislation as it affects Social Security and Medicare.

Personnel Administration (headquarters) - payroll services for all SSA/HCFA employees; investigations of EEO complaints filed by SSA/HCFA employees; personnel and payroll system modernization costs.

Personnel Administration (field) - personnel services for most SSA and HCFA field staff.

Management/Budget (headquarters) - manage HHS ADP and telecommunications program; administer HHS electronic mail system; administer HHS cash management program; develop FAIMS.

Management/Budget (field) - travel voucher examinations for SSA and HCFA field office travelers; accounting services for field operations; facility management and mail delivery for SSA/HCFA Regional Office activities.

General Counsel - legal advice, technical assistance on regulations development; drafting of legislative bills and litigation on the Social Security and Medicare programs. (NOTE: excludes amounts for SSA Disability litigation included in the SSA budget).

DUSIGA - management of intergovernmental affairs and public affairs field office activities as they affect the Social Security and Medicare programs.

Mr. NATCHER. If we do not agree to the requested increase in trust fund transfers, what would take place? Would the trust fund programs be in serious trouble? Suppose we don't agree, what would happen?

Mr. MCCANN. As I indicated before, many of those activities are very difficult to separate from appropriated account activities. Rather than disadvantage the trust fund specifically, it would make the activities of the office as a whole a little bit tighter.

BUILT-IN INCREASES

Mr. NATCHER. Your budget shows built-in increases totaling $15,378,000 for 1987. One of these built-in increases is referred to as "restoration of temporary reductions imposed in 1986".

What does this mean?

Mr. HOPKINS. Mr. Chairman, during fiscal year 1986, the General Departmental Management had a number of reductions that were occasioned by both budget absorptions and from the Gramm-Rudman-Hollings actions under sequestration.

Those reductions included reductions that had to be made on equipment rental, equipment maintenance, work orders for facility repairs and maintenance, employee training, supplies, new equipment, and the like.

The Office of the Secretary made substantial reductions during the course of fiscal year 1986 to operate within the lower overall dollar availability. The fiscal year 1987 budget proposes to restore only partially some of those one-time reductions that were made.

We believe that over the long haul, it does not make sense to not maintain equipment, not procure the supplies that are minimal to operate an office, and otherwise not sustain basic office operations. Thus, the $2,700,000 request for that restoration is getting back only part of what we felt was cut on a one-time basis in fiscal year 1986.

It would point out also, even with the $2,700,000 restoration in 1987, we are still below the 1986 original proposed level, as well as the 1985 spending level for these cost categories.

Mr. NATCHER. What criteria were used in deciding which of the 1986 reductions needed to be restored in 1987? How did you reach conclusions along this line?

Mr. HOPKINS. Mr. Chairman, the Budget Office took a look at what offices had actually spent in the last two or three years for these cost categories and tried to marry those spending levels against economies that had been achieved under Streamlining and under revised and lower staffing levels. The budget request for Fiscal Year 1987 not only maintains the per capita spending level, but further streamlines spending in these areas, while restoring the ongoing cost to a level that we think is minimal to continue the operations.

Mr. NATCHER. Among these built-in increases, you also show $4,930,000 for continued development of a financial management system, and a personnel consolidation project.

Why would these be considered as built-in increases?

Mr. MCCANN. Mr. Chairman, once again, both of those were heavily affected by the Gramm-Rudman-Hollings sequestration. As

I indicated to Mr. Conte, those are fairly high priority programs for us in terms of financial management goals. As for the personnel project, what we are really doing is essentially getting back to the pre-sequester funding level.

Mr. NATCHER. If we are not able to approve these increases, what would be the effect of your financial management system?

Mr. McCANN. In the case of the financial management system, it would be very difficult for us to move forward in an area which I personally consider to be very important.

It is the key, not only to our improvement of management, but to improving the entire financial integrity system that we are trying to put in place, to assure that monies are properly spend by the Department.

Mr. McFEE. On the personnel side, if these funds were not made available, and we had to stop the project, we would have lost the funds that have already been expended for the equipment, because we would not have it all there, and it couldn't be used.

Secondly, as we have some 600 FTE savings, which amounts to a great number of dollars, over five years, we would not be able to realize this because we would need the people there to process paper, which is very heavily involved in a personnel system.

So, it would be a real disaster in the personnel area.

Mr. NATCHER. Mr. McCann, we want to thank you, and I would like to say to you and all of those present, my friend Silvio Conte and I are very much impressed with our new Secretary. We believe he is going to make a good Secretary. He is a man that has been down in the trenches, elected Governor, served as Governor, established an outstanding record.

We believe he has good qualifications. We feel real good about him.

Mr. CONTE. I have no further questions, Mr. Chairman, and I agree with you in your observations.

Mr. NATCHER. Mr. McCann, we want to thank you and your associates for appearing before our committee at this time on behalf of your budget request for fiscal year 1987.

[The following questions were submitted to be answered for the record:]

PROPOSED FY 1987 FTE REDUCTION

Mr. Hoyer. Your justification shows a reduction of 48 FTE. How will this reduction occur?

Mr. McCann. The reduction will occur entirely through attrition. In view of current employment levels and recent employment rates, we believe that by carefully managing hiring and staffing levels, we will be able to achieve most, if not all, of the 48 FTE reduction by early FY 1987. We are not planning any involuntary employee separations, and none would be needed to achieve the proposed FTE decrease.

Mr. Hoyer. Where will the cuts affect the operation of your office?

Mr. McCann. Over one-third of the proposed 48 FTE reduction, 18 FTE, are in Field Management activities of the ten regional offices. The activities targeted for reduction include public affairs, intergovernmental affairs and other support staff in the Office of the Regional Directors. These support activities duplicate similar activities conducted by either field offices of the Operating Divisions or by headquarters activities in the Office of the Secretary. None of the activities planned for reduction provides direct health or social services to the public. We are attempting to help the affected current employees locate alternative employment, and we do not expect any involuntary employee separations.

The remaining 30 FTE are distributed throughout the seven Staff Divisions, essentially in proportion the amount of their current FTE level. These reductions will be met through normal attrition. The staffing decreases will not interrupt or adversely affect any essential service provided by the Office of the Secretary. The 30 FTE decrease represents only between one and two percent of base FTE levels and can be absorbed through increased productivity.

STAFF ATTRITION IN THE OFFICE OF THE SECRETARY

Mr. Hoyer. What is the status of the plan to streamline the Office of the Secretary?

Mr. McCann. The streamlining plan for the Office of the Secretary, was completed in September 1984. The objectives outlined in the streamlining plan were accomplished without the necessity of separating any employees involuntarily. We are, however, continuing to make adjustments to the structure and functions of the Office of the Secretary to further improve operations. For example, we are now in the process of reducing the ten Regional Directors' immediate staffs to three each. The Secretary is also looking at ways to reorganize functions in the Office of the Secretary, again with the goal of improving operations.

Mr. Hoyer. What can you tell me about the attrition rate of the past two years in the Secretary's office and the entire Department?

Mr McCann. Attrition in the Office of the Secretary (OS) declined markedly from fiscal year 1984 to fiscal year 1985, largely because of the increased losses accompanying the streamlining activity during FY 1984. The 1985 attrition rate for the Office of the Secretary (permanent OS employees leaving HHS as a percentage of permanent employment at the beginning of the year) was 10.1 percent. This excludes employees who moved from the Office of the Secretary to other parts of the Department. Comparable data for 1984 shows an attrition rate of about 19 percent.

For the Department as a whole, the attrition rate in 1985 (again permanent employees leaving HHS as a percentage of starting permanent employment) was 7.6 percent. The rate for 1984 was virtually identical--about 7.3 percent.

Our monitoring of employment indicates that the attrition rates for both the Office of the Secretary and the Department as a whole in the current fiscal year are about the same as 1985.

Mr. Hoyer. How many employees have left the Office of the Secretary in the last two fiscal years?

Mr. McCann. Our employment reports indicate that during fiscal years 1984 and 1985, the Office of the Secretary lost 1,467 permanent employees. This includes both employees who left HHS and those who relocated to positions with other Operating Divisions in the Department. We normally track only losses of permanent employees because of distortions produced by the annual influx and departure of temporary summer employees.

CONTRACTING OUT ACTIVITIES

Mr. Hoyer. Has the use of contracting out in the Department increased in the last 2 fiscal years?

Mr. McCann. In FY 1984 we contracted out for one activity previously performed by departmental staff. In FY 1985 we contracted out seven activities. We do not have any department-wide information for FY 1986 at this time.

Mr. Hoyer. How much money has been saved?

Mr. McCann. From that one activity that was contracted out in FY 1984 we estimate that we saved the Department about $150,000 per fiscal year. For the seven activities contracted out in FY 1985 we expect to realize about $1,900,000 in savings annually.

Mr. Hoyer. How many FTEs were eliminated due to contracting out?

Mr. McCann. By our estimates according to OMB Circular A-76, we have eliminated 7 FTEs by contracting out that one activity in FY 1984, and 28 FTEs from the seven activities in FY 1985.

REGIONAL OFFICES

Mr. Hoyer. How many regional offices does the Department presently have?

Mr. McCann. The Department has ten regional offices.

Mr. Hoyer. Do you plan to maintain this number?

Mr. McCann. Yes sir, we do.

Mr. Hoyer. Do you plan to consolidate any Public Health Service or Health Resources Services Administration Regional Offices?

Mr. McCann. Neither the Public Health Services nor the Health Resources and Services Administration has any current plans to close any regional office operations.

Mr. Hoyer. What is the status of the consolidation of the Regional Operations for Facilities Engineering and Construction?

Mr. McCann. The ten Regional Operations for Facilities Engineering and Construction offices, functions and personnel were organizationally consolidated into three Office of Engineering Services units on March 17, 1985. These units are located in New York City, Dallas, and Seattle.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

DEPARTMENTAL MANAGEMENT

General Departmental Management

FY 1987 Budget Page

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DEPARTMENTAL MANAGEMENT

General Departmental Management

For necessary expenses, not otherwise provided, for general departmental management, including hire of six medium sedans, [$139,949,000] *$108,319,000* together with not to exceed [$8,000,000] *$27,500,000* to be transferred and expended as authorized by section 201(g)(1) of the Social Security Act from any one or all of the trust funds referred to therein [of which $16,000,000 shall be for the award of grants, under the authority of section 301 of the Public Health Service Act, for four projects demonstrating the delivery of health care services to victims of acquired immune deficiency syndrome, to be conducted by entities located, and providing services to persons residing, in those four standard metropolitan statistical areas having the highest concentration of persons suffering the syndrome: Provided, That an additional amount of $4,500,000 shall be transferred from amounts available to the National Institutes of Health, National Cancer Institute, for construction, which additional amount shall be used by the Secretary under the contract provisions of section 301(a)(7) of the Public Health Service Act for construction of the Mary Babb Randolph Cancer Center in West Virginia].

Department of Health and Human Services
General Departmental Management
Amounts Available for Obligation

	1985 Actual	1986 Estimate	1987 Estimate
Appropriation..............	$133,000,000	$144,449,000	$108,319,000
Sequester Order.............	—	-6,211,000	—
Proposed Rescission..........	—	-19,619,000	—
Subtotal, adjusted appropriation............	$133,000,000	$118,619,000	$108,319,000
Receipts and Reimbursement From:			
Trust Funds...............	8,000,000	8,000,000	27,500,000
Sequester Order...........	—	-344,000	—
Unobligated balance lapsing	- 767	-160,000[1]	—
Total Obligations..........	$140,233,000[2]	$126,115,000[2]	$135,819,000[2]

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[1] Funds withheld from obligation as required by section 515 of the Treasury - Postal Services Appropriation Act of 1986.

[2] Excludes the following amounts for reimbursement: FY 1985 - $12,325,000 and 30 FTE; FY 1986 - $25,998,000 and 35 FTE; FY 1987 - $26,597,000 and 31 FTE.

SUMMARY OF CHANGES

1986 Estimated budget authority	$144,289,000
1986 Sequester order	- 6,211,000
1986 Proposed rescission	-19,619,000
Total estimated budget authority	118,459,000 a/
(Obligations)	(126,115,000)
1987 Estimated budget authority	$108,319,000
(Obligations)	(135,819,000)
Net change, budget authority	-$10,140,000
(Obligations)	(+ 9,704,000)

	1986 Base		Change from Base	
	Pos. (FTE)	Budget Authority	Pos. (FTE)	Budget Authority
Increases:				
A. Built-in:				
1. Career ladder promotions, merit bonuses, and within grade increases	2,397 (2,290)	$88,233,000	--- (---)	+$2,601,000
2. Increases in other items due to inflation	---	21,226,000	---	+ 913,000
3. Restoration of temporary reductions imposed in FY 1986	---	21,226,000	---	+ 2,740,000
4. Increase in average cost of building space rental payment	---	17,646,000	---	+ 4,194,000
5. Continued development and implementation of Financial and Administrative Information System and personnel consolidation/automation project	---	570,000	---	+ 4,930,000
Total Increases				+$15,378,000

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a/ Includes effect of $160,000 withholding imposed under section 515 of the 1986 Treasury-Postal Services Appropriation Act.

Decreases:				
A. Built-in:				
1. Continued absorption of decreases imposed in FY 1986 Sequester..........	---	21,226,000	---	-789,000
Subtotal..				-789,000
B. Program:				
1. Reduction in staffing level by closely managing hiring......	2,397 (2,290)	$88,233,000	-80 (-48)	-1,552,000
2. Decrease in SLUC following consolidation of space....	---	17,646,000	---	-3,333,000
Subtotal..				-4,885,000
Total, decreases	2,397 (2,290)	---	-80 (-48)	-5,674,000
Net change..........................			-80 (-48)	+$9,704,000

Budget Authority by Activity
(Budget Authority in Thousands)

	1986 Appropriation		1986 Available After Sequestering		1986 Revised Estimate		1987 Estimate	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Immediate Office of the Secretary................	104	$5,182	104	$5,100	104	$5,100	102	$5,156
Legislation...............	27	1,306	27	1,275	27	1,275	26	1,342
Planning & Evaluation.....	81	4,221	81	4,111	81	4,111	80	4,450
Public Affairs............	37	1,944	37	1,869	37	1,869	35	1,920
Management and Budget.....	785	38,061	775	36,741	775	36,741	765	40,508
Personnel Administration..	835	38,870	821	36,129	821	36,129	810	40,544
Field Management..........	75	4,378	66	3,740	66	3,740	48	2,918
General Counsel...........	382	19,320	379	18,672	379	18,672	376	19,127
AIDS Demonstrations.......	—	16,000	—	15,312	—	—	—	—
Cancer Construction.......	—	4,500	—	4,307	—	—	—	—
Rental Payments to GSA (RENT)....................	—	18,667	—	18,478	—	18,478	—	19,854
Total Obligations......	2,326	$152,449	2,290	$145,734	2,290	$126,115	2,242	$135,819
Less: Trust Fund transfers..........		-8,000		-7,656		-7,656		-27,500
Total obligations from appropriated funds...		$144,449		$138,078		$118,459[A/]		$108,319

[A/] Includes the effect of a proposed rescission of $19,619,000 contained in the President's Budget. Other differences from the enacted FY 1986 appropriation are: sequestering pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177); withholding of consultant services funds pursuant to Section 515 of the Treasury-Postal Services Appropriation Act of 1986 (-$160,000); and reductions in FTE in most offices due to a policy of closely managing employment and new hires.

Budget Authority by Object

	1986 Approp.	1986 Current Estimate	1987 Estimate	Increase or Decrease
Total number of permanent positions..	2,471	2,397	2,317	- 80
Full-time equivalent of all other positions..........................	93	89	87	- 2
Total compensable workyears..........	2,326	2,290	2,242	- 48
Average ES Salary....................	$ 64,986	$ 66,136	$ 67,591	+$ 855
Average GS Grade.....................	10.34	10.35	10.40	+ 0.05
Average GS Salary....................	$ 33,747	$ 34,420	$ 34,936	+$ 516
Average Salary of Ungraded positions.	$ 20,882	$ 24,142	$ 24,198	+$ 56
Personnel compensation:				
Full-time permanent................	$ 74,173,000	$ 73,664,000	$ 74,409,000	+$ 745,000
Other than full-time permanent.....	4,062,000	3,922,000	4,082,000	+ 160,000
Other personnel compensation.......	1,644,000	1,588,000	1,630,000	+ 42,000
Special services payments..........	$ 114,000	110,000	113,000	+ 3,000
Total personnel compensation.....	$ 79,993,000	$ 79,284,000	$ 80,234,000	+ 950,000
Personnel benefits..................	8,952,000	8,949,000	9,016,000	+ 67,000
Travel and transportation of persons.	1,127,000	966,000	1,055,000	+ 89,000
Transportation of things............	67,000	65,000	71,000	+ 6,000
Rent, communications and utilities...	5,646,000	5,337,000	5,509,000	+ 172,000
Rental payments to GSA...............	17,538,000	17,646,000	18,539,000	+ 893,000
Printing and reproduction...........	252,000	240,000	241,000	+ 1,000
Other services......................	17,035,000	12,672,000	18,926,000	+ 6,254,000
Supplies and materials..............	961,000	772,000	941,000	+ 169,000
Equipment...........................	218,000	184,000	1,287,000	+ 1,103,000
Lands and structures................	4,500,000	---	---	---
Grants..............................	16,000,000	---	---	---
Total obligations by object........	$152,289,000	126,115,000	135,819,000	+ 9,704,000
Less: Trust fund transfers..........	- 8,000,000	-7,656,000	-27,500,000	- 19,844,000
Total budget authority by object...	$144,289,000	$118,459,000	$108,319,000	-$10,140,000

Significant Items in House and Senate Appropriation Committee Reports

Item	Action Taken or to be Taken
1985 House Bill Report	
Asbestos Exposure to Employees	
The Committee is concerned about reports of possible employee exposure to asbestos in both the HHS North Building and the Switzer Building. The Department is requested to submit, prior to February 1, 1986, a report describing any potentially harmful conditions to which HHS employees may have been exposed and what actions have been taken to alleviate the conditions.	The Department submitted the requested report on February 14, 1986.
1985 Senate Bill Report	
Cancer Center	
The Committee notes that the report furnished by the National Cancer Institute in response to a fiscal year 1985 Committee directive indicates that cancer is the second leading cause of death in West Virginia and that the number of deaths due to cancer in the State has steadily increased. In conclusion, the report recognized the needs of the Appalachian region in the areas of cancer education, research, and treatment resources and that it would be beneficial for West Virginia University to develop significant capability to assist in meeting the needs of the Appalachian region. Therefore, the bill provides $4,500,000 in first-year funding, which will be transferred from	The Department submitted a proposal to rescind these funds as part of the President's FY 1987 Budget request package.

Item	Action Taken or to be Taken
Cancer Center - Continued construction moneys provided for the National Cancer Institute, for the Mary Babb Randolph Cancer Center. The Committee understands that all Federal research moneys that this Center may obtain, will be received through the peer review process as directed by the National Cancer Act. This Center is to be used for education, coordination of clinical efforts, data collection, cancer control and cancer research.	
AIDS Service Demonstration Projects The additional $16,000,000 appropriated to the Secretary is for four demonstration projects on the delivery of health care services to victims of AIDS. These demonstration projects are urgently needed for the delivery of health care services in community settings as an alternative to inpatient care in areas of high concentration of AIDS victims... The demonstrations set up by this section are intended to be used as models for other communities if this disease continues to spread.	The Department submitted a proposal to rescind these funds as part of the President's FY 1987 Budget Request package.

Authorizing Legislation

	1986 Amount Authorized	1986 Estimate	1987 Amount Authorized	1987 Budget Request
General Departmental Management:....	Indefinite	$144,449,000	Indefinite	$108,319,000

General Departmental Management

	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
FY 1978:				
Appropriation	87,159,000	85,910,000	87,090,000	87,090,000
Trust Funds transfer	9,579,000	5,903,000	5,903,000	5,903,000
FY 1979:				
Appropriation	131,531,000	132,743,000	131,956,000	131,956,000
Trust Funds transfer	6,890,000	6,890,000	6,890,000	6,890,000
FY 1980:				
Appropriation	134,086,000	132,020,000	132,220,000	132,220,000
Trust Funds transfer	8,000,000	8,000,000	8,000,000	8,000,000
FY 1981:				
Appropriation	135,884,000	131,754,000	131,454,000	131,454,000
Trust Funds transfer	8,000,000	11,800,000	11,800,000	11,800,000
FY 1982:				
Appropriation	146,601,000	146,601,000	146,601,000	146,601,000
Trust Funds transfer	7,680,000	7,680,000	7,680,000	7,680,000
FY 1983:				
Appropriation	158,969,000	158,143,000	158,143,000	158,143,000
Trust Funds transfer	8,000,000	8,000,000	8,000,000	8,000,000
FY 1984:				
Appropriation	169,963,000	160,794,000	151,963,000	157,963,000
Trust Funds transfer	8,000,000	8,000,000	8,000,000	8,000,000
FY 1985:				
Appropriation	133,000,000	133,000,000	133,000,000	133,000,000
Trust Funds transfer	8,000,000	8,000,000	8,000,000	8,000,000
FY 1986:				
Appropriation	123,949,000	123,949,000	144,449,000	144,449,000
Trust Funds transfer	8,000,000	8,000,000	8,000,000	8,000,000
FY 1986 Sequester:				
Appropriation	-6,211,000			
Trust Funds transfer	- 344,000			
FY 1986 Proposed Rescission				
Appropriation	-19,619,000			
Trust Funds transfer	- 0 -			
FY 1987:				
Appropriation	108,319,000			
Trust Funds transfer	27,500,000			

General Departmental Management

Authorizing legislation - Reorganization Plan No. 1 of 1953 (indefinite authority)

	FY 1986 Appropriation	FY 1986 Revised Estimate	FY 1987 Estimate	Increase or Decrease
Total oblig..	$152,289,000	$126,115,000	$135,819,000	+$9,704,000
Less Trust Fund Transfer..	-8,000,000	-7,656,000	-27,500,000	-19,844,000
Total Budget Authority... (FTE)	$144,289,000 (2,326)	$118,459,000 (2,290)	$108,319,000 (2,242)	-$10,140,000 (-48)

General Statement

The General Departmental Management (GDM) appropriation supports those activities that are associated with the Secretary's roles as policy officer and general departmental manager, as well as those that provide direct, specialized staff support services performed on a centralized basis in the Office of the Secretary for the Operating Divisions of the Department.

GDM activities are performed in the distinct functional areas represented by the sections of this justification. These activities include the direct operations of a payroll system issuing biweekly paychecks to all employees of the Department, a payment management system making grant payments to grantees of Departmental programs, and of accounting systems performing financial transactions for the Operating Divisions.

The FY 1987 budget for GDM activities proposes $108,319,000 and 2,242 full time equivalent (FTE) staff, a decrease of $10,140,000 and 48 FTEs from the comparable FY 1986 level. The President's appropriation request of $108,319,000 for this account represents current law requirements. No proposed law amounts are included.

The FY 1987 GDM budget policy is to continue the gains made in economy and efficiency under the recent Streamlining of the Office of the Secretary (OS) and to achieve further efficiencies throughout OS.

Reductions in personnel costs will be achieved by managing hiring and employment in the OS Staff Divisions. The FY 1987 budget justification reflects this management policy through further staff decreases below the Streamlining level of FY 1985 and the Gramm-Rudman-Hollings sequestering level of FY 1986.

Offsetting FY 1987 dollar savings from continued FTE decreases are built-in budget increases for meeting the costs of general inflation and promotions for employees.

The FY 1987 budget request also restores funding for special project activities started in FY 1986 but delayed due to mid-year budget reductions under the FY 1986 sequestration provisions of the Gramm-Rudman-Hollings legislation. These restorations include funds for: (1) the Financial/Administrative Integrated Management System (FAIMS), designed to reduce the cost of the Department's accounting, procurement and related management systems by improving their efficiency and by eliminating competing, outdated, or overlapping existing systems; and for (2) the Personnel Consolidation and Automation initiative, designed to reduce the number of separate Servicing Personnel Offices in the Departmen [illegible] d, through the use of computers, to carry out more efficiently certain rote personnel and payroll workloads. Each of these projects promise to reduce Federal administrative costs throughout the Department's Operating Divisions while improving the quality and timeliness of accounting, procurement, personnel and payroll support services.

Immediate Office of the Secretary

1986 Appropriation		1986 Available After Sequestering		1987		Increase or Decrease	
FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority
104	$5,182,000	104	$5,100,000	102	$5,156,000	-2	+$56,000

Purpose and Method of Operations - The Immediate Office of the Secretary provides leadership, direction and policy management guidance to the Department. The major objectives are to manage the programs and activities of HHS; implement administrative and Congressional directives; and provide assistance, direction and coordination to the headquarters, the regional and the field organizations of the Department. The Office serves as the nucleus for HHS activities, providing staff support essential for the Secretary to effectively manage and direct the programs of the Department.

Responsibilities associated with policy and issues which the Secretary and the Department must confront daily include:

- Development of position papers and other analyses detailing background, possible approaches/solutions to assist the Secretary in decision-making;
- Preparation and issuance of policy statements/directives to the Department's agencies and employees for the Secretary;
- Review and coordination of new proposals and changes in existing program activities to advise and assist the Secretary in the management and implementation of Departmental programs and policies;
- Resolution of conflicting viewpoints and positions among the agencies of the Department;
- Guidance and assistance to agencies in implementing Congressional or Administrative policy directives;
- Oversight of agencies' execution of directives to assure adherence to Administration policy;
- Maintenance of a document control tracking system which includes over 95,000 pieces of external mail and approximately 7,000 pieces of internal mail;
- Review of all regulatory changes, including proposed new regulations and ongoing review of regulations already published with particular emphasis on reducing the regulatory burden; and

- Development of briefing materials on national issues for use at Cabinet Council meetings.

FY 1986 Accomplishments

Primary accomplishments for FY 1986 for which the Immediate Office of the Secretary provided guidance and management oversight were:

- Streamlined drug and medical devices approval process to expedite the availability of new drugs and devices;
- Development of options to integrate capital-related costs and physicians' services into prospective payment system;
- Implementation of anticipated health and welfare deficit reduction proposals resulting from FY 1986 congressional action; and
- Implementation of Executive Order 12498, Regulatory Planning Process, to establish a coordinated process for development of significant regulatory priorities which will assure that new and existing regulations are consistent with the goals of the Administration, and that the Department's resources are committed appropriately.

FY 1987 Accomplishments

Anticipated accomplishments for FY 1987 for which the Immediate Office of the Secretary will provide guidance and management oversight include:

- Insure that Administration priorities on deficit reduction which are applied to HHS activities continue to be targeted to protect benefits for those whose needfor Federal assistance is the greatest;
- Continue progress in battle against AIDS, reform of financing of long-term health care, and creation of catastrophic health care program for Medicare population; and
- Coordination of Departmentwide efforts toward improving the health of newborn babies and reducing infant mortality rates.

Rationale for the Budget Request - The FY 1987 Budget proposes $5,156,000 and 102 full-time equivalent (FTE) staff for the Immediate Office of the Secretary, an increase of $56,000 and a decrease of 2 FTEs from the FY 1986 level. These changes represent the net effect of within-grade employee promotions and other inflationary increases, restoration of one-time administrative budget reductions in FY 1986 under Gramm-Rudman-Hollings sequestering, and a loss of 2 FTEs through continued restrictive hiring practices in FY 1987. The FY 1987 budget request level will limit IOS management of special initiatives. The Secretary and IOS staff will place greater reliance on the Operating Division staff and reduce services accordingly.

Legislation

1986 Appropriation		1986 Available after Suquestering		1987		Increase or Decrease	
FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority
27	$1,306,000	27	$1,275,000	26	$1,342,000	26	+$67,000

Purpose and Method of Operations - The Office of the Assistant Secretary for Legislation (ASL) serves as the principal advocate before the Congress of the Administration's health and human services initiatives, and also is the principal advisor to the Secretary and the Department on Congressional activities. Activities of the Office include:

- Directing and coordinating legislative activities throughout the Department to ensure consistent and continued representation before the Congress of the Department's agenda;
- Providing guidance on the development and analysis of Departmental legislation and policy, including formulation of the budget; and
- Ensuring that Members of Congress, their staffs and Congressional committee staffs are provided with necessary information on the Department's programs, initiatives and services.

FY 1986 Accomplishments

During FY 1986, Legislation:

- Advocated before members of Congress the Department's legislative agenda, including analysis and resolution of issues raised by Members of Congress and Congressional committee staffs during consideration of health and human services authorizing and appropriations legislation;
- Coordinated Departmental participation in approximately 200 Congressional hearings, mark-up and conference committee meetings. This included: arranging briefing sessions; choosing witnesses; supervising the drafting and clearance of testimony and position papers; communicating Administration positions to the Congress; and advising Department officials of the results of Congressional action; and
- Provided constituent services and liaison with each of the 535 members of Congress, including: announcing to Congressional Offices approximately 13,000 grant and contract awards; and referring, coordinating and arranging for prompt responses to approximately 16,000 written inquiries from Members of Congress.

FY 1987 Accomplishments

ASL fully expects to continue its record of achievement in FY 1987. In addition to its primary, on-going legislative advocacy and policy functions, the Office expects to continue prompt service to the Congress and the Secretary.

Rationale for the Budget Request - The FY 1987 budget includes $1,342,000 and 26 full-time equivalent (FTE) staff, an increase of $67,000 and a decrease of 1 FTE from the FY 1986 estimate. The change from FY 1986 represents the net effect of employee within grade pay increases, general inflation and a decrease of 1 FTE due to continuation of restrictive hiring practices.

At the FY 1987 budget request level, the Office of the Assistant Secretary for Legislation will continue to provide essential legislative policy and related services to the Secretary, senior Departmental staff and Congressional Offices.

Planning and Evaluation

1986 Appropriation		1986 Available after Sequestering		1987		Increase or Decrease	
FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority
81	4,221,000	81	4,111,000	80	4,450,000	-1	+339,000

Purpose and Method of Operations

The functions of the Office of the Assistant Secretary for Planning and Evaluation can be divided into four components: Policy Development, Executive Direction, Administration and Support. Most of the requested 80 FTE provide support for policy development activities, including analyzing policy alternatives and legislative proposals; developing special initiatives, new legislative proposals and conducting reauthorization analyses; reviewing and analyzing regulations; and managing and overseeing evaluation and nonbiomedical research throughout the Department; and conducting evaluation and research studies. This request also includes a number of positions that provide executive direction, administration, and support.

The FY 1987 staff level of 80 full time equivalents (FTEs) represents a reduction of one FTE from the FY 1986 level.

These activities permit the Assistant Secretary for Planning and Evaluation to provide policy advice to the Secretary, to ensure the development of alternative policy approaches with supporting data for major policy issues, and to ensure objective assessments of the effectiveness and efficiencies of HHS programs and policies.

The following is a list of FY 1986 accomplishments:

Policy Analysis and Development

- Developed and administered an analytic agenda of major policy issues of priority to the Office of the Secretary.

- Completed the evaluation phase of a 10 State Long Term Care Channeling Demonstration project designed to measure the cost effectiveness and client outcomes of a program providing community support services to prevent institutionalization of frail elderly persons.

- Completed the report to Congress on Medicare Payment for Capital Costs mandated by the Social Security Amendments of 1983 which established the prospective payment system.

- Managed the Department's Task Force on Federal Prescription Drug Reimbursement Policies and implemented revised policies for drug reimbursement under Medicaid.
- Completed analysis of physician reimbursement reform options under Medicare.
- Completed short-term analytic studies examining factors affecting the transition from welfare to work and assessing options to accelerate this transition.
- Completed work to update an AFDC cost and caseload estimation model to incorporate more recent baseline data derived from the Quality Control system.
- Prepared analyses of savings and caseload effects of alternative AFDC and Medicaid proposals, including inter-program effects of the proposals on these two programs and on the Food Stamp program.
- Completed analyses of ways to reduce loan defaults, improve collections, and improve management of HHS loan programs.
- Improved existing microsimulation models to enhance their ability to simulate tax policy changes affecting HHS-related populations and issues. Used the models to examine the distributional effects of alternative tax treatment of the Earned Income tax Credit, employer-based health insurance, dependent care credit/deduction, etc.
- Provided analysis of poverty data trends and critiqued numerous studies by other governmental agencies and independent sources of the effect of policy changes and economic conditions on poverty statistics.
- Conducted analysis of options for reimbursement of States for welfare administration, including incentive and performance-based funding.
- Conducted analysis of refugee welfare dependency issues and developed options to reduce such dependency.
- Completed analysis of low-income assistance programs and alternative policies, in conjunction with Domestic Policy Council work group on this subject.

- Completed study of alternative state models for consolidating the organization and managment of community-based and institutional long term care financing programs.
- Developed and implemented an analytic agenda for exploring Federal long term care financing and service delivery options utilizing data sets from the National Long Term Care Survey, Channeling, HHS, and prior HCFA community care demonstrations.
- Completed the Congressionally mandated report on policy recommendations for improving the ICFs/MR Program.
- Initiated a short-term study on medical support to provide better estimates on potential Medicaid savings and policy alternatives for increasing access to private health care coverage in child support cases.
- Developed cost estimates for providing cash, medical and other services to immigrants who would be legalized under proposed immigration reform legislation.

Formulation of Legislation

- Managed the development of the Department's FY 1987 legislative program, resulting in the submission of fifteen major bills to the Congress, and prepared material to justify them before Congressional Committees. Among them were:
  - Medicare and Medicaid amendments to help control costs in these programs;
  - reauthorization of Head Start, Native Americans and Low-Income Home Energy Assistance programs;
  - a family violence consolidated grant bill to help prevent serious family violence; and
  - an omnibus bill to improve debt collection, principally from health professions student loan programs.
- Managed the development of the Department's legislative program for FY 1988, including:
  - the identification, review, and resolution of issues concerning several hundred legislative proposals; and
  - the preparation of bill drafting specifications, and supporting analyses and briefing materials.

Evaluation and Data

- Managed the Department's evaluation program, continuing to focus on greater responsiveness of the system to management and policy needs.

- Continued to provide a quick response evaluation study capability to respond to areas of inquiry posed by top policy and management officials in the Department.

- Conducted a series of evaluations, including:

  - Completed an evaluation of private financing of clinical trials.

  - Completed a major study of the costs of graduate medical eduction.

  - Completed a major examination of problems and opportunities in the Department's medical technology assessment process, involving both the Public Health Service and the Health Care Financing Administration and developed options and alternatives to improve its speed, comprehensiveness and utility.

  - Completed the first phase of an evaluation of the effectivenes of health promotion and disease prevention programs operated in private industry.

  - Initiated a major study aimed at assessing and improving the quality and utility of sub-national information systems used to report on and analyze infant mortality in the country.

  - Completed studies providing information on the effectiveness of Federal, state and local processes providing information to the pulic and to agencies dealing with AIDS.

  - Completed a study of DHHS/Department of Agriculture efforts to manage and coordinate the Maternal and Child Health, and Women's, Infants and Children's feeding programs to maximum effectiveness.

  - Completed an analysis jointly with FDA of the utility and cost-effectiveness of the medical devices reporting system.

-- Initiated an evaluation of shadow pricing by HMOs under the community rating system.

-- Completed an evaluation of State insurance laws and their impact on competition.

-- Initiated a study of uncompensated care.

-- Continued a multi-year assessment of preferred provider organizations delivering health care, including their impact on competition, and barriers to their development.

-- Initiated an evaluation of causes of geographic variations in per capita medical expenditures (including the impact of Medicare prospective payment), and in physician medical practices.

-- Completed an evaluation of the impact of HHS regulation of clinical laboratories, and ways to deregulate in this area.

-- Through Project SHARE, completed how-to manuals on respite care, emergency pregnancy centers, and employer day care programs; completed resource kits on family violence, working with the media, and micro computers in human services.

-- Completed an assessment of State statutes and court decisions affecting the legal status of parents and their children.

-- Completed analysis of several types of youth programs, including programs, including programs for runaways, pregnant teens and drug abusers, and developed alternative approaches for increasing parental involvement.

-- Continued a study of male partners of adolescent mothers and pregnant adolescents in AFDC which identifies factors associated with fathers' child support and other parental responsibilities.

-- Completed a study of who adopts special needs children to produce information useful to States and local public and private child welfare agencies.

-- Completed analyses of the predictors of institutionalization among the impaired elderly as part of a Congressionally mandated study.

-- Completed an assessment of the utility of existing data sets in evaluating the impacts of Medicare Prospective Payments on long-term care and developed an analytic agenda in this area.

-- Initiated exploratory studies of the effects of health care financing changes on the post-acute care needs and well-being of Medicare beneficiaries after hospital discharge.

-- Completed analyses of the structure of the nursing home industry and its effects on supply and the effects of state regulatory practices controlling the number of nursing home beds.

-- Completed initial development of a simulation model for estimating the parameters of mortality, morbidity and dependence among the elderly and alternative supply responses of private and government agencies to these demand determinants.

-- Completed a study which identifies the key issues which appear to hinder the practice of contracting by public social service agencies with forprofit firms.

-- Initiated an evaluation of State demonstration of employment of mothers with young children.

-- Completed an assessment of welfare participation rates and welfare demonstrations, jointly with SSA's Office of Family Assistance.

-- Completed a nationally-representative survey of absent parents designed to identify characteristics of parents who pay child support and factors affecting payments.

-- Completed development of a foster care/adoption data base and software data management system to model foster care/adoption caseload and Federal expenditures.

-- Initiated an evaluation of the implementation of the recently issued regulation requiring medical support in child support cases.

Research Management

- o Provided policy oversight of the Department's social research programs through joint planning sessions with HHS research agencies and reviewing research plans and budgets; directed research in several high priority areas.

- o Administered the Policy Research program. [See the Policy Research Justification document for accomplishments.]

Regulatory Analysis

- o Supported development of regulatory plan and regulatory analysis agenda to focus on most needed regulatory reforms; aimed at improving cost-effectiveness and reducing intrusiveness in all significant HHS rules.

- o Reviewed all proposed and final regulations to reduce burden, improve efficiency, and reduce budgetary costs.

- o Worked with the Department's Operating Divisions on formation of major rules, including prospective payments and limits on Medicare reimbursement.

- o Assessed and developed improved procedures for the maximum allowable cost drug reimbursement program, reducing red tape and improving its effectiveness in encouraging use of inexpensive generic drugs.

- o Issued a regulation to clarify and simplify procedures for the administration HHS block grants.

The following is a list of anticipated FY 1987 accomplishments:

Policy Analysis and Development

- o Will continue to conduct analysis of major health, income security and employment, human services and crosscutting policy issues, with particular emphasis on continuing reforming incentives to control health care costs in both public and private health care programs, on addressing problems of welfare dependency, child welfare and support, dependency generally, disability and long term care.

- o Will continue to analyze issues related to the reform of the health care financing system, including assessments of private sector initiatives in health care financing and delivery.

approaches, such as Preferred Provider Organizations and other forms of physician organizations.

- o Will continue analyses of health care policy issues, including those pertaining to catastrophic coverage, and to the Medicaid and Medicare programs--such as next steps in Medicare reform beyond hospital prospective reimbursement and physician and capital reimbursement reforms.

- o Will continue to develop impact and cost estimates on numbers of persons affected by the various legislative proposals and policy options and on the projected tax revenue and expenditure consequences of these options.

- o Will continue to conduct analysis of research findings on family, welfare and retirement issues.

- o Will continue to conduct analyses and provide advice on policy issues being addressed by the Domestic Policy Cabinet Council.

Legislative Formulation

- o Will continue the management of activities associated with the development of the Department's legislative programs for FY 1988 and initiate the development of the FY 1989 program. Such activities include:

  - -- the identification, review, and resolution of issues concerning expiring authorizations;

  - -- the preparation of bill drafting specifications for the FY 1988 legislative program, and the identification and resolution of issues; and

  - -- the identification of cost-saving proposals to continue to control the growth of entitlement programs.

Evaluation and Data

- Will continue to manage the Department's evaluation program, focusing on the utility and cost effectiveness of the Department's investments in evaluation information, and focusing resources on important management and policy issues.

- Will continue to exercise Departmental oversight and quality control over selected individual evaluation projects through systematic, coordinated technical review.

- Will continue to provide a short term evaluation response capability for use by Assistant Secretary and other top policy officials in DHHS, undertaking many such studies during the year, particularly those to address relevant issues which arise in connection with the budget and legislative development processes in HHS.

- Will continue to collect and analyze national program data relating to impacts of current policies, new policy options and program changes.

- Will continue to maintain the documentation center for HHS evaluations, policy analyses, and social research studies.

- Will continue to maintain and improve current statistical models and develop new onces for policy development and assessment of policy alternatives in the areas of AFDC, immigration, low-income population, absent parents and child support, retirement systems, consumer finances, health care financing and expenditures, medical care utilizations, and long term care.

- Continue to coordinate HHS statistical policy, including requirements for the 1990 Census and other national surveys.

Research Management

- Will continue to oversee research planning and budgeting to eliminate overlaps and to assure that research is targeted on important research priorities.

- Will administer research projects under the Policy Research appropriation, including major studies on health care competition, options for reducing welfare dependency, and long term care policies. [See separate section on Policy Research.]

- Will continue to conduct syntheses of research on selected important policy issues and develop research agendas on issues that cross HHS agency lines, or are secretarial initiatives.

Regulatory Review

- Will continue regulatory reviews, focused on major regulations, to reduce unnecessary burden and improve regulations process.
- Will continue to develop annual regulatory policy agendas, and continue analyses to reform regulations towards deregulatory objective, as part of regulations planning.

Rationale for the Budget Request

The FY 1987 budget proposes $4,450,000 and 80 full-time equivalent (FTE) staff. This represents an increase of $339,000 and a decrease of 1 FTE. The staffing decrease is a consequence of the policy of continued restrictive hiring practices in Departmental Management accounts. The funding increase will restore the level of funds needed to maintain the staff and support costs such as travel, training, equipment maintenence, etc., which were cut in order to comply with budget restrictions imposed in FY 1986.

Public Affairs

1986 Appropriation		1986 Available After Sequestering		1987		Increase or Decrease	
FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority
37	$1,944,000	37	$1,869,000	35	$1,920,000	-2	+$51,000

Purpose and Method of Operation - The Office of the Assistant Secretary for Public Affairs serves as the principal public affairs officer in all aspects of Departmental policy and activities; oversees the planning, management and execution of communication activities throughout HHS; conducts Departmentwide public affairs programs; provides public information support on legislative initiatives which cut across the Department's program and Operating Division lines; and provides information on Departmental actions and purposes to the public in general.

The Assistant Secretary for Public Affairs is responsible for:

- o Providing information, advice and counsel to the Secretary and other senior Departmental officials to assure that public affairs aspects are considered in the establishment of Departmental policies and conduct of Departmental activities;

- o Conducting an active program of communicating with the public on behalf of the Department through the media and other avenues to further public understanding of policies, programs and issues;

- o Providing functional management of public affairs activities throughout the Department to assure that Departmental priorities are followed, and that public affairs and public education activities of Departmental Operating Divisions are cost-effective and are not duplicative. Functional management of public affairs includes the review and evaluation of Operating Divisions' audiovisual communication products and publications. Centralized functional management of the Department's public affairs activities assures that appropriate materials are delivered to the right audiences in the most cost effective manner;

- o Maintaining liaison with public interest and voluntary groups to encourage their participation in HHS initiatives and activities; and

- o Setting policy and procedures in the Department and Operating Divisions for administering and implementing the Freedom of Information Act, the Privacy Act, and other information-access statutes that assure the public's right to know and protects the individual's right to privacy, as well as administering and implementing these acts and statutes for the Department.

FY 1986 Accomplishments:

During FY 1986, Public Affairs will have:

- o Developed an Hispanic Communications Manual designed to increase the Department's awareness of the need and how to inform the Hispanic community on health issues and social services programs;
- o Coordinated efforts to increase awareness of minority health issues and prevention, and remedial steps available to minorities;
- o Continued liaison and management review of the health information campaign to increase awareness among the elderly population of appropriate lifestyles to maintain health and fitness in later years; and
- o Reviewed contracts for audiovisual products and campaigns funded by the Department and reduced costs by over $300,000. Reviewed 960 HHS publications and periodicals, including all non-recurring publications, valued at $20.5 million resulting in cost reductions of over $2.0 million because of disapprovals and withdrawals, while maintaining the Secretary's directive to limit spending for publications and audiovisuals to the FY 1981 level of $24.7 million.

FY 1987 Anticipated Accomplishments:

The Office of Public Affairs anticipates that during FY 1987, it will:

- o Continue to accomplish its mission and complete all ongoing projects through the use of more effective management and implementation of computer systems;
- o Conduct a full program of informing the public of all pertinent Department activities through national and local media in order to assure a public understanding of Department policies, programs and issues;
- o Continue to provide functional management of public affairs activities throughout the Department to assure that Departmental priorities are followed, and that public affairs and public education activities of Operating Divisions are cost effective and are not duplicative;

- o Maintain liaison and communication with public interest and voluntary groups nationwide to encourage their assistance and participation in HHS initiatives and activities; and
- o Coordinate and manage the Secretary's special initiatives to further awareness on a variety of HHS issues of particular concern to the American public.

Rationale for the Budget Request - The FY 1987 Budget proposes $1,920,000 and 35 full-time equivalent (FTE) staff for the Office of the Assistant Secretary for Public Affairs, an increase of $51,000 and a decrease of two FTEs from the FY 1986 level. These changes represent the net effect of within-grade increases and other inflationary costs, restoration of one-time administrative budget reductions in FY 1986 under Gramm Rudman-Hollings sequestering, and a loss of two FTEs through continued restrictive hiring practices in FY 1987.

Management and Budget

	1986 Appropriation		1986 Available after Sequestering		1987		Increase or Decrease	
	FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority
CO:	457	$24,506,000	450	$23,442,000	442	$26,660,000	-8	+$3,218,000
RO:	328	13,555,000	325	13,299,000	323	13,848,000	-2	+ 549,000
Total	785	$38,061,000	775	$36,741,000	765	40,508,000	-10	+$3,767,000

"CO" represents Central Office activities
"RO" represents Regional Office activities

Purpose and Method of Operations - "Management and Budget" activities include: (1) providing management and policy direction to the Department's live Operating Divisions on all aspects of financial management, administration, and other management activities, with the exception of personnel management; (2) providing direct finance and administrative services for the Office of the Secretary and certain Departmental agencies in Washington, D.C. and to all Operating Divisions in the regional offices; and (3) operating special centralized services for the Department, such as the Payment Management System; and (4) managing delegated procurement authorities from GSA.

Management and Budget activities are performed in the Office of the Assistant Secretary for Management and Budget (ASMB). The ASMB supervises the Department's financial and budget process; it interprets broad Federal policy and provides specific Department-wide guidance on grants, logistics, procurement, information resources and management matters, and it coordinates implementation of policy among the Department's Operating Divisions and agencies.

In addition ASMB provides the accounting services for the Office of the Secretary (OS) and the Offices of Human Development Services and Community Services and it performs budget and contracting services for the OS Staff Divisions, including the Department's Office of Inspector General and Office for Civil Rights and the U.S. Office of Consumer Affairs.

The regional office components of ASMB provide efficient, centralized financial and administrative services to regional office Operating Divisions and Staff Divisions. These components also negotiate and approve the basis on which certain types of costs are charged to Federal programs by State and local governments, hospitals, universities and nonprofit organizations.

Management and Budget is comprised of Central Office functions and Field Offices. These functions can be divided into 4 categories, which generally reflect ASMB's management and organizational structure.

Central Office Functions:

1. Financial Services: includes finance and budget activities of the Office of Finance and the Office of Budget. Also includes operating costs of the OS/HDS Accounting System and of the Payment Management System (PMS), as well as developmental costs of the Financial/Administrative Integrated Management System (FAIMS).

2. Administrative Services: includes direct administrative services of the Office of Facilities and Management Services, including Southwest, D.C. building management, mail service and transportation and messenger services.

3. Management Services: includes activities of the Offices of Management Analysis and Systems including ADP systems maintenance costs supportive of the OS accounting systems and PMS, the Office of Procurement, Assistance and Logistics, as well as ASMB executive direction.

Field Office Functions:

4. Regional services: includes activities of the Regional Office Divisions of Cost Allocation; Divisions of Accounting, Finance and Budget Services; and Divisions of Administrative services, as well as support for the Regional Administrative Support Center Director.

A detailed description of each of these functional areas, including actual and planned accomplishments, follows:

Central Office

Financial Services

Purpose and Method of Operations - Financial services are those activities which provide the direction and/or services necessary for the financial management of the entire Department.

Financial Services formulates, executes, presents and justifies the Department's budget, establishes uniform debt management practices throughout the Department; and maintains operations of Departmental and Office of the Secretary financial systems. Workloads in FY 1987 are expected to remain about the same as in FY 1986.

FY 1986 Accomplishments

- On behalf of the Operating Divisions, made over $45 billion in grant payments on a timely basis to over 10,000 recipients under the Payment Management System;

- Under the Financial/Administrative Integrated Management System (FAIMS), conducted comprehensive Department-wide studies and completed documentation of functional requirements for general ledger, fund control, accounts payable, accounts receivable, purchasing, supply management, property and building and facilities. These requirements will provide the basis for implementing the FAIMS, which is designed to reduce costs throughout the Department's Operating Divisions by improving the efficiency and effectiveness of administrative processes.

- Developed necessary enhancements to the Payment Management System to: (1) increase the use of electronic media for paying grants, thereby leading to an estimated annual interest savings of $6.7 million through elimination of over 1,000 Federal Reserve Board Letters of Credit; and (2) improved operating procedures to improve management decisions in allocating resources and evaluation of the system effectiveness in managing cash flow.

- Continued to provide financial reporting services and policy implementation support to the Central Control Agency (OMB, Treasury, GSA and GAO), and the Congress (for example, timely response to Congressional inquiries about HHS program expenditures).

- Continued monitoring of the Department's activities to improve debt management by reducing the Department's delinquent accounts by an estimated $24 million through collection and to improve cash management through cash flow and interest savings for FY 1983-86 of $1,019 million and $466 million, respectively.

- Provided management direction for conducting vulnerability assessments and internal control reviews; prepared the Secretary's reports to the President and the Congress on the results of fiscal year 1985 reviews of internal control and accounting systems as required by the Federal Managers' Financial Integrity Act of 1982, and OMB Circulars A-123 and A-127.

- Provided 245,000 timely accounting transactions under 8,500 accounts in support of $5.7 billion in Departmental Management, Office of Human Development Services and Office of Community Services appropriations. Provided timely Department-wide financial services involving approximately 15,000 reports for regional accounting, central registry and geographic reporting of program obligations as well as about 350 apportionment control documents.

- Continued to strengthen travel management and oversee the control of travel expenditures including the processing of approximately 30,000 transactions.

- Continued quarterly reviews of the Department's timeliness in paying its bills under the Prompt Payment Act to continue to minimize the amount of interest penalties and also the amount of early payments which result in lost interest to the Treasury.

Anticipated FY 1987 Accomplishments

- Meet basic accounting requirements related to operations of the Payment Management System, the regional accounting system, the Departmental central registry system, the Office of the Secretary/Human Development Services headquarters accounting system, and the Departmental geographic expenditure reporting system.

- Provide management oversight and direction for conducting internal control and accounting system reviews as required under the Federal Managers' Financial Integrity Act of 1982 and OMB Circulars A-123 and A-127; corrective actions to address any material weaknesses; and prepare the Secretary's reports to the President and the Congress under the Act for fiscal year 1986.

- Assist the Department of the Treasury in implementation of improved cash management methods for financing HHS programs resulting from the joint Federal-State Cash Management Equity Task Force.

- Complete implementation of the remaining two Payment Management System modules for increased internal and management control over the payments and cash recovery process.

- Award contract for the acquisition and modification of application software to satisfy the functional requirements for the Financial/Administrative Integrated Management System (FAIMS). Finalize Department-wide efforts to incorporate adjunct issues such as systems integration, security and control, hardware configuration, conversion strategy and training into the FAIMS implementation. Continuation in FY 1987 of these FAIMS impementation efforts is expected to reduce the long-term administrative costs of the Department's Operating Divisions in future years.

- Continue to develop enhanced payment processes for grantees by implementing Phase II of electronic cash request (SMARTLINK) and working with Treasury to develop Phase III (Remote Host Interface). At the completion of Phase III, estimated full savings from PMS of $137.5 million in outlay deferrals will be realized and Treasury will commence earning the full annual interest savings of $13.7 million.

- Continue monitoring of the Department's efforts to improve cash management through FY 1987 initiatives estimated to yield $90 million in cash flow savings and $9 million in associated interest savings. These savings are in addition to prior year's initiatives which are estimated to yield $1,019 million in cash flow savings and $466 million in cumulative related interest savings.
- Continue monitoring of the Department's debt management effort to achieve estimated collection of $1.85 billion in FY 1987 with a reduction in delinquencies of $77 million.

Administrative Services

Purpose and Method of Operations - The Administrative Services activity manages a range of Departmental administrative programs and provides staff support of the Office of the Secretary and the Operating Divisions.

The long-range goal of this activity is to provide Department-wide policy in the area of safety and occupational health, emergency preparedness, real property and postal management, and provide contractural, procurement and administrative support for headquarters components. Among the ongoing "administrative services" functions are those activities that:

- Plan, solicit, negotiate, award and administer contracts, modifications and purchase orders from competitive and non-competitive sources for the Office of the Secretary and other Departmental components located in Southwest Washington, D.C. including the Office of Human Development Services and Office of Community Services.
- Provide Departmental leadership to all Operating Divisions for the employee safety and occupational health programs; provide policy direction for real property and space management programs; and to operate the Departmental emergency preparedness program.
- Manage and improve services for HHS facilities in the Southwest Complex including handling of complaints and monitoring the corrections of facility failures and maintenance (200 to 300 operations a month). Screen requests, arrange for mechanics (GSA or sub-contract) and monitor completions of repairs, alterations and minor construction projects to insure need, feasibility, proper engineering and design and cost effectiveness (500 projects in 1985).
- Assign and reassign space as required by Departmental components to assure efficient and effective utilization and compliance with regulations and directives.

- Manage telecommunication services and costs to assure efficient data and voice communications. Manage the renovation, alteration and construction of facilities for telecommunications switching equipment to be purchased or leased by the Department.

- Provide efficient, cost-effective library services to Departmental Management, other HHS components, and the general public. The library responded to more than 35,000 reference questions and requests for bibliographic services and completed nearly 4,200 interlibrary loans.

- Promulgate Department postal and postal related policy concerning changes or new policy in these areas. Operate for OS and OHDS a comprehensive mail/messenger service, telegraphic teleticketing, and facsimile services, and file maintenance and records disposition service. Process over 13,500,000 pieces of incoming mail and over 1,200,000 pieces of outgoing mail during the year.

- Provide timely and economical graphic and visual aid services to the Office of the Secretary and to the Department's Operating Divisions located in Southwest, D.C. Approximately 600 job orders were completed during the year.

- Execute delegated responsibility for full facilities management of two wholly HHS-occupied buildings totalling 2,000,000 square feet.

- Provide oversight of all Department-occupied facilities in the Baltimore-Washington area including interface with GSA for all real property transactions.

FY 1986 Accomplishments

- Installed micro-computers in the Contracts Division to facilitate workload accomplishments and saw that all socio-economic procurement goals were met.

- Maintained an effective system for responding to facility failures and completion of work requests with limited time restrictions.

- Managed telecommunication services and costs and assigned and reassigned space as required. Continued space reduction efforts realizing an improvement of approximately 20% in office space utilization in the Southwest Complex between January 1, 1985 and September 30, 1985.

- Assumed full responsibility from GSA for the management and operation of the Hubert H. Humphrey and Federal Office Building #8 during the year.

- Provided updated policy documentation for the Departmental real property and space management function.
- Implemented a program of briefing emergency personnel using video tape presentations. Completed a total update and revision of the Departmental Safety Management Policy Manual.

Anticipated FY 1987 Accomplishments

- Continue to provide a variety of Administrative Services such as mail management, paperwork management and property and supply services.
- Monitor telecommunications costs and dispose of unnecessary equipment to maintain a cost efficient operation.
- Automate the reporting system for real property and space management information and install a micro-computer emergency network.

Management Services

Purpose and Method of Operations - Management Services consists of the Office of Management Analysis and Systems, the Office of Procurement, Assistance and Logistics, plus executive direction. These components provide the direction and/or services necessary for the efficient and effective management of the entire Department. The long-range goal of this office is to correctly advise the Secretary in a timely manner of all management issues which affect the direction and control of the Department's program operations. Specific objectives of Management Services are:

- Ensure effective and efficient management of the Department's assistance, procurement and logistics activities.
- Institute management control systems and processes within the Department that will ensure accountability, efficient use of limited resources, and results from the expenditure of those resources.
- Institute an Information Resources Management (IRM) Program which fulfills the requirements of the Paperwork Reduction Act of 1980 and OMB Circular A-130, and manages information resource-related delegations of procurement authority from the GSA.
- Manage selected computer-based OS systems supporting Department-wide programs, such as the Payment Management System, the Information Technology Systems (ITS), and the OS/HDS and Regional Accounting Systems.

FY 1986 Accomplishments

- Resolved about 180 audit reports on grantee/contractor organizations and 10 follow-up reports on the correction of system deficiencies. 8,500 requests for technical assistance/advice and accounting system proposal approvals were handled.
- Reviewed ADP cost proposals and provided technical assistance on ADP systems to the Regional Divisions of Cost Allocation.
- Reviewed and rendered a Departmental position in approximately 75 protests for contracts and procurements under grants and process debarment/alert action cases.
- Provided and conducted 70 procurement training courses. Executive Order 12352 on Procurement Reform and the Competition in Contracting Act along with increased emphasis on procurement and logistics operations prompts the need for increased activity in this area.
- Managed the Department's Small Business Innovation Research Program, which is required by P.L. 97-219. This involves managing a full-fledge Labor Surplus Area Program, increasing purchases from minority firms by at least 10 percent as directed by the Administration, and managing the certification program that was developed in 1982.
- Reviewed information resource-related procurement actions for almost $1 billion and worked with the OPDIVs to develop cost-effective strategies which resulted in savings of over $200 million.
- Developed and published the Departmental Information Resources Management (IRM) Manual to establish effective and efficient strategies and policies for competitively acquiring and managing information resources.
- Provided automatic data processing and telecommunication technical support to Office of Finance staff, enabling them to achieve the efficient services and related interest savings cited in the FY 1986 Office of Finance accomplishments.
- Processed 70 advisory and assistance contract proposals and achieved cost avoidance savings of $5 million.
- Directed and oversaw a program to eliminate at least 11.9 million hours of paperwork burden currently imposed on the public by the Department.
- Reviewed over 200 proposals from the States for funding of computer systems projects which support public assistance programs and achieved greater automated integration of States' public assistance programs. These State ADP systems are designed to improve program management efficiencies and many will result in savings from reduced payment errors.

- Coordinated with the Departments of Agriculture and Labor the development and issuance of final regulations to the States, implementing Section 2651 of the Deficit Reduction Act of 1984, which requires States to establish Income and Eligibility Verification Systems (STEUS). These systems will exchange income information between and among Federal and State agencies on recipients and applicants for the major public assistance programs.

- Processed 65 Freedom of Information appeals within statutory time limits.

- Developed, administered and processed within the Department management control systems which ensure accountability, efficient use of limited resources, and effective outcomes from the expenditure of those limited resources.

Anticipated FY 1987 Accomplishments

- Direct and oversee the Department's use of information resources towards the goal of maximizing the use of modern technology to increase program effectiveness at minimum cost to the taxpayer.

- Direct and oversee the Department's paperwork reduction program to achieve minimum imposition of paperwork burden upon the public consistent with the obtaining of information necessary to support effective program operations.

- Continue to provide direct automatic data processing and telecommunication technical support to Finance staff, enabling them to achieve improved levels of services and related savings of Federal interest payments as cited above.

- Initiate and implement changes in OMB cost principles for colleges and universities to limit Federal reimbursement to only those overhead activities which benefit research. A cost savings of $60 - $90 million annually is projected from these changes.

- Resolve about 180 audit reports on grantee/contractor organizations and 10 follow-up reports on the correction of accounting and recordkeeping deficiencies.

- Implement recommendations resulting from FY 86 studies on award procedures annd State costing practices in public assistance programs. These recommendations address the use of annual instead of quarterly awards, integrating State expenditures and cash drawdown reporting and the wide variation in administrative costs among States and the major programs (AFDC, Medicaid, Food Stamps).

- Continue monitoring the Department's annual procurement planning initiative to effect an even monthly distribution of awards, while restricting fourth quarter obligations to 25-35%, and yearly non-competitive procurements to 45% of total procurements.

- Direct and oversee cost reviews and negotiations conducted by Regional Divisions of Cost Allocation.

- Provide and conduct 70 procurement training courses. Increased emphasis on procurement and logistics operations prompts the need for increased activity in this area.

- Defend Department's action in 70 contractor protests to GAO or GSA.

- Redesign the Departmental process for approving State ADP systems requests to make it more timely and responsive to States' needs.

Regional Offices

The ASMB activity in the Regional Offices consists of the Division of Cost Allocation, the Division of Accounting, Fiscal, and Budget Services and the Administrative Service Division. Collectively, these units provide a centralized administrative support service to the Regional Office components of the Department's Operating and Staff Divisions. Administrative support is provided centrally in the Regional Offices because it is more economical to do so than through separate units in the Operating Divisions.

The activity is under the functional management of the Assistant Secretary for Management and Budget and is administered by the Regional Directors.

FY 1986 Accomplishments

Through this activity, the Department provides efficient, centralized financial, and administrative services to its Regional Office components and negotiates and approves the basis on which certain types of costs are charged to Federal programs by State and local Governments, hospitals, universities, and non-profit organizations.

Specifically, this activity provided the following services during FY 1986 to approximately 75,000 Regional employees and to the grantee/contractor community.

- Provided complete accounting and fiscal services to Regional Office components including:
  - Paying 200,000 vouchers within acceptable time frames, which permitted taking advantage of prompt payment discounts on invoices;
  - Preparing 22,000 voucher and invoice schedules of disbursement for payment;
  - Making 80,000 Imprest Fund transactions; and
  - Processing 600,000 lines of accounting data within applicable time frames.

- Responded to all requests for budget guidance; monitored spending levels in more than 800 allotment/allowance accounts with no violations of the Anti-Deficiency statutes.

- Conducted indirect cost reviews and negotiations with nearly 2,500 organizations, with resulting reduction of approximately $275 million in claimed indirect program costs;

- Reviewed 400 contracts and 15,000 procurement requests for legality, and determined the best available resources that would result in the most cost effective and timely procurements.

- Completed 5,000 property utilization reviews and determinations;

- Processed 8.5 million pieces of mail, including pick up and delivery services;

- Provided over 100 million lines of ADP/word processing input/output enabling better use of current staff through increased efficiencies in clerical workloads; and

- Completed 30,000 actions in support areas such as printing, supply, records and form management, labor and maintenance services. Reviewed telecommunication requests for system efficiency.

These services will continue to be provided at the FY 87 request level through increased productivity, and the development of ADP systems packages.

Rationale for Budget Request

The FY 1987 budget request for Management and Budget functions is $40,508,000 and 765 full-time equivalent (FTE) staff, an increase of $3,767,000 and a decrease of 10 FTE from the FY 1986 comparable level. The change from FY 1986 represents the net effect of an increase of continuing progress on developing the Financial/Administrative Integrated Management System (FAIMS) for which progress was deferred during FY 1986 due to Gramm-Rudman-Hollings legislation and other delays (+$2.5 million); of employee within grade pay increases and general inflation increases during FY 1987 (+$0.9 million); of partial restoration of one-time decreases made under the FY 1986 sequestration provisions of Gramm-Rudman-Hollings (+$0.3 million); and of a decrease of 10 FTE through continuation of restrictive hiring practices through FY 1987 (-$0.4 million).

The Office of the Assistant Secretary for Management and Budget will continue to perform all essential advisory, coordination, and direct operational services conducted in FY 1986. The proposed staffing reductions will be achieved through a closely-managed hiring policy that, through employee attrition, is not expected to result in the need for involuntary separations of career employees.

Personnel Administration

1986 Appropriation		1986 Available after Sequestering		1987		Increase or Decrease	
FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority
835	$38,870,000	821	$36,129,000	810	$40,544,000	-11	+$4,415,000

Purpose and Method of Operations - The Office of the Assistant Secretary for Personnel Administration (ASPER) administers a responsive, service-oriented personnel and payroll system in support of the Department's mission and programs. The Assistant Secretary for Personnel Administration provides leadership and direction in the program development and procedures covering Equal Employment Opportunity (EEO) programs and practices, recruitment, training and career development of departmental officials and employees, and employee relations. The Office of the Assistant Secretary for Personnel Administration also includes the Departmental Grant Appeals Board which reviews, conducts hearings, and decides post-award grant disputes and Civil Monetary Penalty cases.

ASPER staff also provide personnel services for recruitment and placement, position management and classification, employee development and labor management relations to HHS components in the Southwest area of the District of Columbia. These services are also provided by the ten Regional Personnel Offices to more than 75,000 field employees of the Department. Staff also administers a departmental awards program, and is developing and implementing a departmental employee counseling service.

ASPER also provides personnel policy direction and supervision to field staff who provide personnel services exclusively to employees of the Social Security Administration's (SSA) Program Service Centers and Data Operations Centers. These field staff are included in the "Limitation on Administrative Expenses" portion of the SSA budget request (177 FTE and $5,421,000.) These resources are authorized in the SSA budget since they exclusively benefit SSA, but are managed by ASPER since they receive technical and other functional direction from ASPER.

ASPER's major activities are summarized in the following resource table:

	1986 Appropriation		1986 Available after Sequestering		1987	
	FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority
ASPER, Headquarters 1/	394	$22,334,000	387	$20,064,000	382	$24,009,000
ASPER, Regions 2/	441	16,536,000	434	16,065,000	428	16,535,000
Total, ASPER	835	$38,870,000	821	$36,129,000	810	$40,544,000
Personnel Services to SSA -- non-add 3/	182	$ 5,412,000			177	$ 5,421,000

1/ Includes the payroll system for the Department, all consolidated personnel services for the Office of the Secretary (OS), the Office of Human Development Services (OHDS), and the Office of Community Services (OCS) headquarters and for certain Office of the Inspector General (OIG) field employees, EEO investigations and merit systems reviews for HHS, grant appeals review of Operating Divisions (OPDIVs), rulings resulting from Civil Monetary cases prosecuted by the Department, and personnel policy development for the Department.

2/ Provides personnel services for HHS field employees.

3/ Provides all personnel services for Social Security Administration (SSA) employees located in SSA Program Service Centers and Data Operations Centers. These resources are included in the SSA portion of the budget.

1986 Accomplishments

Personnel and Payroll Operations

- ASPER processed approximately 140,000 time and attendance documents and 25,000 personnel and pay transactions each pay period to produce personnel action notifications, pay accounting data, and personnel reports.
- As part of the Personnel Consolidation and Automation effort, ASPER installed new equipment in 25 sites, trained 385 employees in the use of the system, and tested 38 applications.
- ASPER implemented an initiative to further improve the integrity of HHS salary and benefits payments in the areas of quality control, error resolution, unemployment compensation, injury compensation, retirement, and debt collection.
- As part of the implementation of the recent negotiated agreement between the National Treasury Employees Union, and OS and OHDS, ASPER trained 400 managers and 165 timekeepers in processes to be used under the agreement.

Human Relations

- Two grievance inquiries, 85 grievance reconsiderations, 45 merit systems cases were completed.
- 260 discrimination complaint investigations were completed, 52 rejections/cancellations of complaints and 30 complaint withdrawals were processed; 175 final decisions on complaints of discrimination were issued and 92 appeals and requests for Equal Employment Opportunity Commission (EEOC) hearings were processed.
- ASPER implemented the Early Settlement Demonstration Project for complaints arising in the Washington and Baltimore areas. This project was developed with the concurrence of the EEOC, to apply mediation techniques to the handling of discrimination complaints in order to increase the number of complaints resolved.
- A pilot project was established to identify, select, and subscribe to a private sector automated data base made up of Federal Court and Administrative Law cases, and Federal regulations impacting on the Federal Labor Relations Program established under 5 USC 71. The system will allow automated research of the precedent-setting decisions, rules and regulations during preparations to represent management in grievance/arbitrations, unfair labor practices and issues arising from collective bargaining negotiations.

Human Resources Programs

- ASPER continued program development activities producing updated guidance on adverse actions mainly to reflect legal precedents established by recent Court and Merit Systems Protection Board decisions, advice on how to handle misconduct actions, new information on employee compensation and benefits, internal control of PHS Commissioned Officers leave administration (ASPER's Internal Control Program has been assessed by the Inspector General to be excellent in terms of quality and quantity.)
- Technical assistance was provided regarding such personnel issues as furloughs during periods of lapsed appropriations, placement assistance programs for employees affected by Reductions in Force, and in the areas of discipline and grievances.
- Nationwide audits of Food and Drug Administration positions were completed. The audits were in response to an Office of Personnel Management review which found a high position classification error rate. Department audits confirmed a much lower rate and directed corrective actions where necessary.
- ASPER published revisions to HHS-wide grievance procedures which both streamline the grievance process (e.g., reducing the grievance stages from three to two) and facilitate managers' and personnelists' understanding of it (e.g., stating some clarifications to important issues that frequently occur in the process and providing an up-to-date sample decision letter).

- o Developed and obtained OPM approval for the departmental plan to implement the Congressionally mandated Performance Management and Recognition System, which covers 8,800 managers and supervisors.
- o Collected and analyzed employment data which supported the continuance, and in some series increases, of special pay rates for critical medical, professional and technical occupations.

Regional Personnel Services

Regional Personnel Offices provided the following types of services to the more than 75,000 DHHS employees in the regions:

- o Personnel actions including transfers, reassignments, pay adjustments, recruitments and promotions.
- o Position review for proper classification, both initial classification of newly described positions and periodic review of established positions to ensure their continued proper classification.
- o Direct training to OPDIV employees; employee benefits and employee benefit counseling; and counseling and assistance regarding outside training opportunities.
- o Processing of adverse actions/grievances arising in the Regions. Conduct of negotiations on collective bargaining.
- o Evaluation and review of Regional Office personnel management policies and procedures.
- o Implementation of Affirmative Action Plans, complaints processing, and employee counseling on the equal employment process.
- o Guidance and oversight to staff providing personnel services to field employees of the Indian Health Service.

FY 1987 anticipated accomplishments:

In addition to ongoing activities, ASPER will be involved in the following during FY 1987:

Personnel and Payroll Operations

- o As part of the Personnel Consolidation and Automation effort, we will install new equipment in 26 additional sites, train approximately 200 employees in the use of the system, and test 76 new applications. A series of applications will facilitate the processing of Requests for Personnel Action (SF-52s), and of the resulting Notifications of Personnel Action (SF-50s) and will lessen the possibility of errors in the preparation of these forms. The SF-52 includes more than 50 items for which information is typed-in, the SF-50 includes a similar number. Under these applications, the user will type-in the Social Security Number and the changes made by the personnel action, all other items will be produced automatically. The elimination of typing will reduce preparation time and will result in fewer errors.

More than 200,000 SF-50s are processed each year in the Department to effect such actions as new hires, promotions, within-grade increases, and changes in position titles. Another application will facilitate the preparation of position descriptions and will simplify the classification process for commonly used occupations.

- In FY 1987 ASPER intends to introduce an integrated development program for supervisors, managers and executives in the Department. Heretofore, each group's needs have been treated separately even though there are substantial similarities. An integrated approach should both eliminate redundancy as well as fill in any gaps which may exist.

- Greater efficiency through further automation will be achieved in the payroll system in 1987. Paperwork and distribution costs will be reduced in time and attendance reporting and in the issuance of employee earnings and leave statements. Additionally, all salary payments will be made using Electronic Funds Transfer which will allow ASPER to eliminate the designated agent function and could save the Department's components as much as $1,000,000 in administrative expenses.

Human Relations

- Reevaluate the results of the Early Settlement Demonstration Project, in order to determine viability of continuation and/or expansion of this initiative.

- An initiative which will be developed will explore the use of written interrogatories in investigations. The use of written interrogatories could result in reduced costs of some investigations. ASPER plans to develop and test a number of standard interrogatories, and to evaluate the viability of institutionalizing their use.

Human Resources Programs

- ASPER will continue its program development efforts through a review of ASPER publications aimed at eliminating those which are duplicative or unnecessary. ASPER will also investigate the long-term feasibility of computerizing the HHS instructions Program and the Military Reservists Mobilization Program Data.

- Technical assistance will be provided to OPDIVs and Regional Personnel Offices on a variety of issues, Including for example, handling personnel issues when a Tribe contracts to take over an Indian Health Service function.

- ASPER will develop a Human Resources Indicators System. The system will be designed to provide an overview to the managers of the Department on how well they manage their human resources. The system will array a set of standard statistics which can be used to compare an contrast human resource data.

Regional Personnel Services

In FY 1987 Regional Personnel Offices will continue to provide a full range of services to DHHS components and staff in field locations. Because of increased automation during FY 1985 and FY 1986, the requirement for staffing will have been reduced by more than 10% making regional personnel services more efficient and cost effective. This trend will continue during FY 1987 as more software applications are tested and brought on line.

Additionally, regional personnel offices will be heavily involved, in training new systems users who are located in administrative offices and other other personnel offices outside the regional city.

Rationale for the Budget Request - The $40,544,000 request for FY 1987 is an increase of $4,415,000 over the amounts available in FY 1986 after sequestering. The changes from the revised FY 1986 level include costs for employee within-grade pay increases and for general inflation in non-personnel expense categories ($1.1 million), for continuation in FY 1987 of the Personnel Consolidation and Automation project for which progress was deferred in FY 1986 due to Gramm-Rudman-Hollings budget reductions ($2.8 million), for other restorations of ASPER operating expenses deferred under the FY 1986 sequestration ($.9 million), partially offset by a reduction of 11 FTE through continuation of restrictive hiring practices in FY 1987.

The single largest protion of the requested budget increase ($2.8 million) would provide funds in support of the Personnel Consolidation and Automation effort which was delayed as a result of Sequestering. The Personnel Consolidation and Automation effort is expected to reducepersonnel and payroll costs in the Department by about $10 million annually. The long term Departmental savings will be phased in through FY 1989 and are achievable by:

- consolidating 17 distinct Servicing Personnel Offices (SPOs) into 6 SPOs; and
- using more efficient computer and data processing equipment to electronically link SPOs with the central payroll office and permit data to be communicated quickly and economically, thereby eliminating the need for support staff who now manually transcribe, batch and deliver hard copy reports of such data.

Although savings will be reflected across several Departmental agency budgets, direction for the consolidation and automation program is provided centrally in ASPER. The Department's plan to automate personnel and payroll systems has been designated by the Office of Management and Budget as a Reform '88 pilot system. Highlights of the schedule for automating personnel and payroll activities include the acquisition and installation by ASPER of computer and data processing equipment, development of the required software, and training of personnel in the use of of the system. Equipment will consist of work stations, printers, processors, and disc storage and tape units. The equipment will replace existing personnel office equipment which in some cases is now about 10 years old and is no longer maintainable. Software acquisitions include word processing, computer languages, work flow development and monitoring, and report writing. These one-time costs will be offset by reduced staff support costs and, more importantly, will result in more efficient personnel and payroll services.

Field Management

1986 Appropriation		1986 Available After Sequestering		1987		Increase or Decrease	
FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority
75	$4,378,000	66	$3,740,000	48	$2,918,000	-18	-$832,000

Purpose and Method of Operations - The General Departmental Management appropriation supports the Office of the Deputy Under Secretary for Intergovernmental Affairs which includes the Offices of the Regional Directors and their staffs located in the ten Regional Offices. The Regional Directors serve as the Secretary's field representatives by providing liaison with citizens, Congressional district offices, and State and local governments. The Regional Directors also direct the provision of administrative support services for the regional offices of the Department's Operating and Staff Divisions.

Anticipated FY 1986 Accomplishments - During FY 1986 the Offices of the Regional Director under the direction of the Deputy Under Secretary for Intergovernmental Affairs accomplished the following:

1. Maintained contact with approximately 4,000 State and local government units and more than 10,000 electronic and print media. Special emphasis was placed on Administrative/Secretarial initiatives (e.g., Child Support Enforcement, Volunteerism, Homeless).

2. Conducted approximately 150 conferences, meetings, and seminars at which the Administration's and Department's initiatives and policies were presented to and commented on by the general public and specific client groups.

3. Supervised the processing of over 8,000 Congressional inquiries and requests for assistance and information from staff of U.S. Congressional Offices in the Regions.

4. Provided executive direction for administrative support services to more than 75,000 Departmental employees in the Regional and Field Offices; and

5. Continued to reduce support service staff in the ten regional offices, streamlining the provision of public affairs and intergovernmental and Congressional affairs services in the field.

Anticipated FY 1987 Accomplishments - In FY 1987 the Regional Directors will:

1. Continue to reduce support service staff in the ten regional offices, streamlining the provision of public affairs and intergovernmental and Congressional affairs services in the field;
2. Provide effective direction by serving as a focal point for coordinating and administering essential regional activities consistent with the Administration's initiatives and policies;
3. Continue to disseminate information to assist public officials, the media, and the general public to better understand the mission and functions of the Department; and
4. Hold conferences and seminars on a wide range of issues relating to Departmental initiatives as a means of obtaining the public views in the Department's decision making process.

Rationale for the Budget Request - The budget proposes $2,918,000 and 48 FTEs for "Field Management" in FY 1987, reductions of $822,000 and 18 FTEs from the FY 1986 level. These reductions continue the regional office staffing decreases described in the FY 1986 budget request a year ago. Reductions in regional office employment are being concentrated in public affairs and intergovernmental affairs activities. Employment levels will be reduced throughout FY 1986 resulting in an expected staff complement of 48, including a small headquarters component, at the start of FY 1987.

Efforts are being made to achieve the staff decreases through attrition and employee placements in other jobs. It is not expected that a reduction-in-force will be necessary.

More streamlined regional offices will concentrate on providing leadership and executive directions to the Department's field operations, on communicating the Administration's initiatives and on other priority matters. Greater reliance will be placed on the public affairs and intergovernmental affairs efforts of the Department's Operating Divisions in responding to questions of Congressional district offices, State and local governments and private citizens.

Office of the General Counsel

1986 Appropriation		1986 Available after Sequestering		1987		Increase or Decrease	
FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority
382	$19,320,000	379	$18,672,000	376	$19,127,000	-3	+$455,000

Purpose and Method of Operations - The Office of the General Counsel (OGC) provides legal advice and representation to the Secretary and throughout the Department on matters of policy, guidance, and general management. The General Counsel directs the operations of specialized legal divisions which are aligned with the Department's major programs, supervises Regional Counsel activities, and provides centralized support for all legal services. The Office of the General Counsel also performs the substantive legal workloads associated with all Departmental programs. Through specialized legal divisions, which are aligned with the Department's major programs, and through field offices, OGC implements the legal strategies and courses of action necessary to uphold Congressional intent and Departmental policy in all areas in which HHS has statutory authority. This is accomplished by directing staff efforts and performing legal workloads in the areas of:

1. Litigation - defending the Department in complaints initiated by aggrieved persons (85% of litigation) and enforcing funding conditions and safety standards (15% of litigation);

2. Advice - preparing legal opinions and instruments, as well as drafting and commenting on legislative proposals;

3. Rulemaking - reviewing proposals to issue, amend, or revoke regulations; and

4. Support - providing automated case tracking and opinion retrieval systems, word processing, and administrative services.

FY 1986 Accomplishments

During FY 1986, the General Counsel activity will have:

- Improved the allocation of professional staff hours through the use of a computerized Litigation Control Tracking System, which will allow attorneys to track significant events in all HHS litigation and to ensure consistent litigation strategies by the Department;

- Directed the defense of the Department's interpretation of statutes and regulations in cases filed as class actions involving constitutional issues and substantial sums of money;

- Drafted approximately 35 bills included in the Administration's legislative program, and coordinated responses to requests from OMB and Congressional committees for the Department's views on proposed legislation;

- Rendered advice about legal requirements to the Department's operating officials, and responded to over 1,200 legislative inquiries from Departmental officials and the public;

- Participated in developing over 100 regulations and numerous Federal Register documents needed to clarify responsibilities, minimize burdens, and promote innovative techniques;

- Maintained administrative support of OGC operations through automation, training, and implementation of personnel and budget policies;

- Successfully defended the Department's interpretation of statutes and regulations in cases ranging from prospective payment of Medicare inpatient hospital services to the safety of foods and drugs, and including litigation in the areas of debt collection, claims for attorney fees, recoveries under Hill-Burton, and civil money penalties against health care providers;

- Reviewed disallowances under State-operated medical assistance and grantee-operated social services programs, reviewed proposed waivers for State Medicaid programs, and reviewed all legal instruments of the Department;

- Prepared legal opinions and other forms of legal advice on complex program and administrative issues, including block grants, program eligibility and funding criteria, debt management, and all legislative or regulatory changes;

- Provided assistance to program officials in the development of clear and informative regulations necessary to implement Departmental responsibilities as economically as possible;

- Supervised and directed administrative litigation, including guidance in the defense of Departmental activities before the Departmental Grant Appeals Board, the Merit System Protection Board, the Armed Services Board of Contract Appeals, the Equal Employment Opportunity Commission, and other administrative bodies;

- Handled approximately 6,550 items concerning new requests to represent the Department in administrative proceedings; to recommend or prepare for Federal court actions to enforce program requirements or to collect monies due to government; to advise clients; to support the Department of Justice; and to appear in litigation brought against the Secretary;

Federal Register items; and

- Responded to over 79,000 requests for legal advice as well as requests to draft or comment upon legislation.

FY 1987 Anticipated Accomplishments

In FY 1987, the Office of General Counsel will continue to carry out existing responsibilities of:

- Providing direction to the Department's defensive and enforcement litigation efforts;
- Rendering advice about legal requirements and proposed legislative changes;
- Maintaining administrative support of OGC operations;
- Providing the best possible defense and enforcement of the Department's decisions and policies;
- Reviewing all legal instruments, waivers, and disallowances;
- Advising program officials of legal responsibilities; and
- Assisting in the development of program rules and regulations.

Rationale for the Budget Request - The FY 1987 budget request is for $19,127,000 and 376 FTEs, an increase of $455,000 and a decrease of 3 FTEs from the FY 1986 comparable level. These changes represent a reduction of 3 FTEs from continuation of restrictive hiring controls through FY 1987, from employee within grade pay increases and other inflationary increases and from restoration of one-time decreases made in FY 1986 due to sequestration actions under the Gramm-Rudman-Hollings legislation.

In addition, OGC also provides policy guidance and direction to headquarters and field staff who provide legal services exclusively with respect to Social Security Disability litigation. These headquarters and field staff are included in the "Limitation on Administrative Expenses" portion of the Social Security Administration's budget. Although under the management direction of the General Counsel, these resources are displayed in the SSA portion of the budget since they directly and exclusively benefit SSA's Disability Insurance program.

RENT

1986 Appropriation	1986 Available After Sequestering	1987 Estimate	Increase or Decrease
Budget Authority	Budget Authority	Budget Authority	Budget Authority
$18,667,000	$18,478,000	$19,854,000	+$1,376,000

Purpose and Method of Operation

The RENT activity, formerly known as "Standard Level User Charge" (SLUC), includes funds for renting office space for buildings that house Office of the Secretary (OS) employees in the Washington, D.C. area and at regional and field locations. It also finances the cost of related services, such as building security and maintenance, as well as the cost of necessary alterations and renovations.

RENT is administered by the Office of Facilities and Management Servces (OFMS) within the Office of the Assistant Secretary for Management and Budget. OFMS is responsible for formulating the Department's budget estimates for RENT and for overall management of the Department's space reduction program. The amounts under this heading cover the RENT costs for all OS Staff Divisions which are part of the General Departmental Management (GDM) appropriation.

FY 1986 Accomplishments

In FY 1985, the Office of Facilities and Management Services will:

1. Continue to refine and implement the Space Reduction Plan for the Southwest Washington, D.C. headquarters complex.

2. Continue consolidation of OS office space and the office-by-office space reduction program consistent with the President's Reform '88 goal of 135 square feet of office space per person.

3. Vacate up to 160,000 square feet of office and related space in Office of the Secretary locations throughout the nation.

Anticipated FY 1987 Accomplishments

1. As a consequence of space reduction actions begun in FY 1985 and continued in FY 1986, the average square footage of office space per employee will be reduced by approximately 9% in FY 1987.

2. Through consolidation and renovation of existing space, the OS should achieve a nearly 20% reduction in the average square footage per employee from the FY 1984 comparable level.

Rationale for the Budget Request

The General Departmental Management request for FY 1987 includes $18,539,000 for rent and $1,315,000 for related services. This represents an increase of $1,376,000 over the FY 1986 level available after Gramm-Rudman-Hollings sequestering. This increase is the net of a significant rise in the RENT charges per square foot (nearly 24% nationwide), and a restoration of related services funds (e.g. building repairs) deferred on a one-time basis in FY 1986 due to budget constraints in that year, less savings due to anticipated space consolidation.

	FY 1987 Change
o Increases in RENT charges	+$4,194,000
o Restoration of related services	+ 515,000
o Savings due to space consolidation	- 3,333,000
	+$1,376,000

Detail of Permanent Positions

	1985 Estimate	1986 Estimate	1987 Estimate
Executive Level I	1	1	1
Executive Level III	1	1	1
Subtotal	2	2	2
ES-6	3	3	3
ES-5	6	6	6
ES-4	27	27	27
ES-3	14	14	14
ES-2	12	12	12
ES-1	18	18	18
Subtotal	80	80	80
GS/GM 16	2	1	1
15	183	180	176
14	373	370	332
13	374	371	339
GS 12	290	286	271
10	228	199	178
11	22	22	19
9	172	160	150
8	101	99	80
7	289	265	250
6	210	210	181
5	220	210	190
4	83	80	61
3	46	42	16
2	3	2	2
Subtotal	2,596	2,497	2,246
Grades established by Act of July 1, 1984 (42 USC 207) Commissioned Corps	6	6	6
Subtotal	6	6	6
Ungraded	25	24	21
Total permanent positions	2,709	2,609	2,355
Unfilled positions, end-of-year	446	437	227
Total permanent employment, end-of-year	2,263	2,172	2,128

General Departmental Management

Estimates of Consulting and Related Services

Consulting Services			Obligations ($000)			
	Type 1/	Source of Funds 2/	1985	1986 Approp	1986 Current Estimate	1987
Evaluation	C	A	$ 160	$ 120	$ 50	$ 60
	P	A	472	265	250	205
	C	N	3,764	5,900	5,750	5,500
Sub-total.....................			$4,396	$6,285	$6,050	$5,765
Non-evaluation	P	A	15	15	8	15
	A	A	1,809	1,665	649	1,950
Subtotal, non-evaluation......			$1,824	$1,680	$ 657	$1,965
Total, consulting services...			$6,220	$7,965	$6,707	$7,730
TOTALS:						
Contractual services (C)....			3,924	6,020	5,800	5,560
Personnel appointments (P)..			487	280	258	220
Advisory committee expenses(A)			1,809	1,665	649	1,950
Total, consulting services..			$6,220	$7,965	$6,707	$7,730

1/ Indicate C for contractual services, P for personnel appointments, or A for advisory committee obligations

2/ Indicate A for appropriated funds or N for non-appropriated funds.

Related Services

	Type 1/	Source of Funds 2/	Obligations ($000) 1985	1986 Approp	1986 Current Estimate	1987
	MP	A	$304	$635	$589	$669
	SA	A	9	0	0	0
	RD	N	175	160	150	140
Total, related services.....			$488	$795	$739	$809

Totals:

	1985	1986 Approp	1986 Current Estimate	1987
Management and professional services....................	$304	$635	$589	$669
Special Studies and Analyses.	9	0	0	0
Management and Support for Research and Development....	175	160	150	140
Total, Related Services	$488	$795	$739	$809

1/ Indicate MP for management and professional services, SA for special studies and analyses, or RD for management and support services for research and development activities.

2/ Indicate A for appropriated funds or N for non appropriated foods.

Description of the Need for Consulting and Related Services

Consulting and Related Services are needed to provide otherwise unavailable expertise on a time-limited basis for the following services:

— Consulting Services

Consulting services are used for a variety of projects and services such as:

— $900,000 will be used to investigate complaints of discrimination in employment arising in HHS nationwide. If complaints are not investigated within a certain time period, complainants may file suit in court. The cost to the Government would increase significantly if many cases had to be defended in court.

- $1,000,000 will be used to support the development of applications to be used in the personnel consolidation and automation effort. This Reform '88 pilot system will facilitate the processing of personnel action while reducing the possibility of errors. This funding level will also support training of system users at various levels.
  The absence of this support would mean that the software necessary to support this project would not be developed. The manual system currently used is no longer maintainable. As the equipment deteriorates and staff and resources are reduced, the capability to process personnel actions and produce checks would be impaired. FY 1987 funding will allow resumption of this effort which was delayed due to sequestering.

- $220,000 will be used for personnel appointments to provide advisory services to the Secretary on programs and initiatives of personal interest which require unique expertise not available in the workforce. Due to Gramm-Rudman-Hollings reductions and because recent policy changes have transferred some responsibility for initiatives to the operating divisions (OPDIVs) the amounts of obligations for these services has been reduced from previous years.

- $5,500,000 in reimbursable funds will be used to conduct analysis of new Secretarial initiatives such as : Physician Reimbursement, Graduate Medical Education, Access to quality health care, medical liability (defensive medicine and cost of malpractice insurance), as well as other cross-cutting policy issues.

- $110,000 will be used for various other sources such as interpreter services for the hearing impaired, certain training efforts, etc.

- Related Services

  Related services are used in the following ways:

- $654,000 will be used to provide management and professional services for the Payment Management System (PMS), the Disaster Backup Plan, as well as project officers and procurement training. The funds requested in FY 1987 will bring the level of obligations back to where it was before sequestrating.

- $140,000 will be used to provide management support services for research and development activities related to Secretarial initiatives paid for with reimbursable funds. This is 20 percent below the level actually used in FY 1985.

Department of Health and Human Services

Proposed Changes to General Provisions for Fiscal Year 1987

Introduction

The President's budget for fiscal year 1987 includes recommendations regarding changes to the General Provisions of the proposed Labor/HHS/Education and Related Agencies appropriation bill. General Provisions proposed by the Department are included in the Appendix of the 1987 Budget, Part I, at the conclusion of the schedules for the Department of Health and Human Services (title II general provisions) and the Department of Labor (title V general provisions).

The fiscal year 1987 General Provisions language is based on Public Law 99-178, making appropriations for the fiscal year 1986.

The following is a listing and explanation of the proposed changes:

Title II

Section 202. Funds appropriated in this Act for the Alcohol, Drug Abuse, and Mental Health Administration and the National Institutes of Health shall be used to support no fewer than [6,100 new and competing] 19,400 research projects grants.

Explanation

This provision has been revised. The 1987 budget request is based on achievement of a policy to fund 18,000 research project grants at NIH. It is through these grant programs that individual scientists and scientific institutions are able to respond rapidly to emerging areas of scientific promise.

The identification of a policy objective for research projects that focuses on the total number of awards, rather than only the number of new and competing projects, recognizes the full portion of resources available in this funding mechanism. Growing fiscal pressures throughout the Federal budget demand that a level of stability be achieved in project grants that does not result in large fluctuations in resources for other research support mechanisms. In addition to the stability policy for managing resources, the NIH will also devote greater cost consciousness in the review and approval of project proposals.

A principal element in the ADAMHA request is the support of 1,400 investigator-initiated research project grants. Maintenance of this level in 1987 will provide continued reasonable development of the alcohol, drug abuse, and mental health research community.

Section 203. Appropriations [in this Act for the Health Resources and Services Administration, the National Institutes of Health, the Centers for Disease Control, the Alcohol, Drug Abuse, and Mental Health Administration, the Office of the Assistant Secretary for Health, the Health Care Financing Administration, and Departmental Management] shall be available for expenses for active commissioned officers in the Public Health Service Reserve Corps and for not to exceed two thousand four hundred [and fifty] commissioned officers in the Regular Corps; expenses incident to the dissemination of health information in foreign countries through exhibits and other appropriate means; advances of funds for compensation, travel, and subsistence expenses (or per diem in lieu thereof) for persons coming from abroad to participate in health or scientific activities of the Department pursuant to law; expenses of primary and secondary schooling of dependents in foreign countries, of Public Health Service commissioned officers stationed in foreign countries, at costs for any given area not in excess of those of the Department of Defense for the same area, when it is determined by the Secretary that the schools available in the locality are unable to provide adequately for the education of such dependents, and for the transportation of such dependents, between such schools and their places of residence when the schools are not accessible to such dependents by regular means of transportation; expenses for medical care for civilian and commissioned employees of the Public Health Service and their dependents, assigned abroad on a permanent basis in accordance with such regulations as the Secretary may provide; rental or lease of living quarters (for periods not exceeding five years), and provision of heat, fuel, and light and maintenance, improvement, and repair of such quarters, and advance payments therefore, for civilian officers, and employees of the Public Health Service who are United States citizens and who have a permanent station in a foreign country; purchase, erection, and maintenance of temporary or portable structures; and for the payment of compensation to consultants or individual scientists appointed for limited periods of time pursuant to section 207(f) or section 207(g) of the Public Health Service Act, at rates established by the Assistant Secretary for Health, or the Secretary where such action is required by statute, not to exceed the per diem rate equivalent to the rate for GS-18; not to exceed $9,500 for official reception and representation expenses related to any health agency of the Department when specifically approved by the Assistant Secretary for Health.

Explanation

A portion of this provision, indicated by the brackets, is deleted in order to simplify the language.

This provision has been revised to decrease the limitation on the number of regular commissioned officers in the Public Health Service Commissioned Corps from 2,450 to 2,400. The decrease represents the level of regular commissioned officers compatible with program requirements of the Public Health Service and consistent with current membership in the regular commissioned corps.

Section 208. No funds appropriated for the fiscal year ending September 30, [1986] 1987, by this or any other Act, may be used to pay basic pay, special pays, basic allowance for subsistence and basic allowances for quarters of the commissioned corps of the Public Health Service described in section 204 of title 42, United States Code, at a level that exceeds 110 percent of the Executive Level I annual rate of basic pay: Provided, That amounts received from employees of the Department in payment for room and board may be credited to the appropriation accounts "Health Resources and Services", National Institutes of Health "Office of the Director", "Disease Control", and "Federal Subsidy for Saint Elizabeths Hospital": Provided further, That funds appropriated by this Act or any other Act shall not be used for special, revised special, or continuation pay to any physician or dentist appointed to the Public Health Service Comissioned Corps during the current year whose primary duties are determined by the Secretary to be administrative or managerial: Provided further, That any physician or dentist who, through promotion or reassignment within the Corps, assumes as primary duties administrative or managerial responsibilities may, at the discretion of the Secretary, receive such special, revised special or continuation pay.

Explanation

An important mission of the Public Health Service is the provision of direct care services to patients at service facilities. To insure an adequate supply of physicians and dentists, the Corps is authorized to pay bonuses to these two medical specialties. This provision would permit physicians and dentists in direct-care settings to continue to receive such bonuses. In addition, the provision recognizes that in many cases, direct-care facilities or programs are best administered by experienced Commissioned Corps officers. Accordingly, this provision permits continued payment of bonuses to physicians and dentists who are promoted to administrative or managerial positions. However, a recent HHS IG report described several instances in which Commissioned Corps officers had been assigned to managerial-type positions in non-direct care facilities or programs. Thus, to insure that the Commissioned Corps continues to focus on the provision of direct-care services, and that Corps administrators are experienced in Corps-provided services, this provision also prohibits the payment of bonuses to physicians or dentists whose first Corps assignment, made during FY 1987, is primarily administrative in nature.

[Section 211. Pursuant to section 264 of title 42, United States Code, funds provided in this Act for research into the causes and transmission of the acquired immune deficiency syndrome disease may be used by the Surgeon General for closing or quarantining as a public health hazard any bathhouse or massage parlor which in his judgment pursuant to law can be determined to facilitate the transmission or spread of the AIDS epidemic].

Explanation

This provision is deleted.

The Department already possesses this authority through Section 361 of the Public Health Service Act which authorizes the Secretary to take such measures as are necessary to control the introduction, transmission, or spread of communicable diseases. With regard to this activity, the Public Health Service normally works through State and local authorities to accomplish the desired results.

Section 211. Funds appropriated by this Act may be used to pay bonuses, as authorized under 5 U.S.C. 5948, only to those persons who are licensed to practice medicine except that this provision shall not apply to individuals receiving such bonuses prior to January 1, 1987.

Explanation

Under current law, the Department may pay physician comparability allowances to general schedule physicians in specialties having significant recruitment and retention difficulties, even if the physician is no longer licensed to practice medicine.

The intent of this provision is to prohibit payment of physician bonuses to unlicensed physicians. No physicians receiving such bonuses prior to January 1, 1987 will be affected by this provision.

Section 212. Not to exceed one-half of one percent of appropriations made available for this fiscal year for the activities of the National Institutes of Health funded in this Act may be transferred to any other appropriation for the National Institutes of Health, but no such appropriation, except as otherwise provided, shall be increased or decreased by more than one per centum by any such transfers and Congress shall be notified promptly of any such transfer: Provided, That research grants or contracts funded by any appropriation made to any National Institute of Health or the Alcohol, Drug Abuse, and Mental Health Administration, shall be awarded only after consideration by the advisory body of the full cost of such a research grant or contract.

Explanation

Consistent with a recommendation made in the IOM study of NIH, Responding to Health Needs and Scientific Opportunity: The Organizational Structure of the National Institutes of Health, October 1984, this provision would authorize the transfer of funds between appropriations to the National Institutes of Health (NIH). This authority would enable NIH components to either contribute or receive funds from each other in order to quickly respond to national health emergencies requiring NIH expertise. In the past, when biomedical crises, such as Acquired Immune Deficiency Syndrome, required prompt action, the NIH could not react without prior authority from the Administration and Congress to redirect funds to urgent problems.

The provision also would require advisory groups to NIH and the Alcohol, Drug Abuse, and Mental Health Administration to take into account the indirect costs as well as the direct costs of research grants and contracts when deciding on their funding status.

Section 213. Funds appropriated under this title shall not be available for increases to State and local governments' allocated overhead rates above the rates in effect on September 30, 1985.

Explanation

This provision would preclude increasing the proportion of Federal funds for overhead purposes. It does not require State and local governments to reduce from current overhead spending rates.

In most discretionary programs, overhead increases often result in a one-for-one reduction in funds available for programs or program services. In entitlement programs, when this one-for-one relationship does not exist, additional Federal funds diverted to State and local overhead costs add to the Federal deficit and increase the pressure to reduce programs. This provision will help ensure that funds appropriated under this title are used as intended for programs, not for overhead. We want at least the same proportion of Federal funds to go to the programs as did during FY 1985.

Section 214. Nothwithstanding 31 U.S.C. 1348, and for the purpose of insuring proper management of federally supported computer systems and data bases, funds appropriated by this Act are available for the purchase of dedicated telephone service between the private residences of employees assigned to computer centers funded under this Act, and the computer centers to which such employees are assigned.

Explanation

This provision would allow the Federal government to cover the cost of dedicated data lines in residences of selected professional computer specialists and other staff who are responsible for monitoring, and if necessary, fixing problems with the ADP systems after normal working hours.

The existing law states "no money appropriated by any Act shall be expended for telephone service installed in any private residence or private apartment for tolls or other charges for telephone service from private residences or private apartments, except for long-distance telephone tolls required strictly for the public business." The current state-of-the-art in computer science and telecommunications allows computer specialists to query, program, monitor, fix, start and stop computer programs and facilities while located at a remote site using a computer terminal over a telephone line.

Selected staff of the Division of Computer Research and Technology of NIH are responsible for insuring that certain programs such as the NIH Material Management System, and Central Accounting System, monitor the system after hours and is in addition to the staffs' normal daily work assignments.

In the event of problems or potential systems failure, they must access the system and determine and correct the problem. In some cases, this can be easily accomplished from a terminal at home, thereby significantly reducing computer down time, particularly where the employee lives a considerable distance from the ADP installation.

Section 215. None of the funds appropriated by this title are available for grants to the Federated States of Micronesia and the Marshall Islands: Provided, That funds made available to Guam, American Samoa, the Virgin Islands, the Northern Mariana Islands, and the Republic of Palau shall be available only in amounts that such entities would have received had the Compact of Free Association not been enacted. (Department of Health and Human Services Appropriation Act, 1986.)

Explanation

A Compact of "Free Association" had previously been negotiated with two of the three jurisdictions that make up the Trust Territory (the Republic of the Marshall Islands and the Federated States of Micronesia). The Compact established basic principles of relations with the U.S. Since approved by Congress, eligibility for financial assistance under most Federal programs, and all HHS programs, has now ceased. The change was made as insurance that those entities not covered by the Compact will not receive amounts greater than they would have received had the Compact not been enacted.

Title V

Section [514] 513. Upon the enactment of the Compact of Free Association for Palau, amounts appropriated by this Act for Federal financial assistance to [the Trust Territory of the Pacific Islands shall be available only for the Republic of] Palau shall not be available [but only in amounts that such Republic would have received had the Compact not been enacted].

Explanation

The Republic of Palau has not approved the Compact of Free Association and, therefore, HHS program funding for Palau will remain available in FY 1987 at levels previously provided to this territory. As was the case last year with the Marshall Islands and Micronesia, this provision will preclude a "double funding" windfall to Palau if and when the Compact of Free Association is approved for Palau and central funding established within the Department of Interior. Until enactment of the Compact for Palau, HHS financial responsibility to Palau is limited to its proportionate share of past years appropriations.

FRIDAY, APRIL 18, 1986.

OFFICE OF THE INSPECTOR GENERAL

WITNESSES

RICHARD P. KUSSEROW, INSPECTOR GENERAL

DENNIS P. WILLIAMS, ACTING DEPUTY ASSISTANT SECRETARY FOR BUDGET

JOHN T. HOPKINS, DIRECTOR, OFFICE OF THE SECRETARY BUDGET SERVICES

Mr. NATCHER. We have at this time, the request for the Inspector General for fiscal year 1987.

We have before the committee Mr. Richard P. Kusserow. It is a pleasure to have you before the committee, and before you proceed with your statement, tell us who you have with you at the table.

Mr. KUSSEROW. The only ones I have with me, to my right, are my budget commissars from the Assistant Secretary's Office, Management and Budget.

Other than that, no one else.

Mr. NATCHER. You may proceed.

Mr. KUSSEROW. I am the Inspector General for the Department of Health and Human Services, and I appreciate the opportunity to come before you today to tell you a little bit about what it is that we have been doing with the money you have appropriated to us in the past, and a little bit about the future.

For fiscal year 1987, our budget proposes $69,716,000 in total obligational authority, of which $29,716,000 is requested in fiscal year 1987 budget authority, and $40,000,000 is proposed for transfer from the social security and medicare trust funds.

The $69,716,000 total obligations request represents a $878,000 increase from the comparable level for fiscal year 1986. The President's appropriation request of $29,716,000 is within the amount authorized under Public Law 94-505.

Reimbursements from the social security and medicare trust funds are increased by $10,000,000 to more accurately reflect Office of Inspector General work in direct support of the programs financed by these trust funds.

This shift in the source of OIG funding results in no change to the OIG's program level. The budget authority also reflects a reduction of $1,222,000 from fiscal year 1986 budget authority for savings from office space renovation and rental costs.

Since 1981, the Office of Inspector General has actively fulfilled its statutory mission of providing leadership and coordination and recommending policies designed to promote economy and efficiency and preventing fraud and abuse in the Department's programs.

As in the preceding years, we are continuing to keep our efforts in line by proportioning our staff resources consistent with the major allocations of the Department's total budgetary outlays and areas of high vulnerability.

Consequently, social security, medicare and medicaid, and the grants and internal financial systems continue to consume the bulk of our audit, inspections and investigative resources.

This redirection has, in turn, resulted in a continuous and progressive rise in our prosecutions, sanctions and savings and recoveries; all done with no real budgetary resource increase to my office over the last five years. Fiscal year 1985 was no exception, as is indicated by the attached graphs.

During that fiscal year, we continued to practice our approach of improving OIG management by increasing our efficiency and effectivness. Our accomplishments, as illustrated in our semi-annual report, continue to exceed our earlier expectations.

During fiscal year 1985, over $4,900,000,000 in settlements, fines, restitutions, recoveries and savings were identified, thus supporting our upward trend. This represents a 3,000 percent increase since 1981 and a return ratio of nearly $68 for each dollar spent to support OIG activities for fiscal year 1985.

During the same time frame our investigative efforts rose from 165 to over 1,005 successful prosecutions in fiscal year 1985, a 600-percent increase. Also, we obtained administrative sanctions against 390 health providers and suppliers "kicked out" of the medicare and medicaid programs for program and patient abuse, a 19-percent improvement from fiscal year 1984 to fiscal year 1985, and a 1,000-percent increase in the last five years.

Both our level of prosecutions and level of sanctions represent progress over last year's achievements, and again, I point out that these results were achieved by better targeting the use of OIG resources for improved efficiency and effectiveness.

For fiscal year 1987, the majority of our work will come from our program operations, comprised of the Offices of Audit, Investigations, and Inspections and Analysis.

The bulk of the OIG staff is divided among these components, with the Office of Audit having the largest staff complement.

As mentioned previously, the workload of these components is devoted mainly to the big expenditure programs of the Department: Social security, medicare, medicaid and public health, programs which consume more than 95 percent of the Department's total resources.

The medicare and medicaid programs, administered by the Health Care Financing Administration, HCFA, provide health care for approximately 50,000,000 Americans; nearly one out of every five citizens.

For fiscal year 1985, OIG recommendations adopted by HCFA and legislation resulting from OIG findings resulted in $3,000,000,000 in savings in medicare and medicaid.

Further recommendations are under consideration. For example, we pointed out that some capital and medical education costs are improperly included in the cost base for the current diagnostic related group rates. Excluding those charged could prevent annual overcharges to the medicare program of $770,000,000.

An OIG inspection of three DRGs identified substantial vulnerabilities in coding. The findings identified overpayments in excess of $20,000,000.

In fiscal year 1987, significant resources will be devoted to medicare-medicaid programs in order to identify ways to contain health costs, particularly in the area of reimbursement for hospital and physician services.

For example, OIG will continue to assess implementation of the Medicare Prospective Payment System.

In addition, we plan to expand our evaluations of PPS abuses, such as improper coding of medical records, underutilization of services, unnecessary admissions, readmissions and inappropriate transfers or discharges.

Due to the large outlays of the Social Security Administration's program and the costly operational problems that persist, the Office of Inspector General will continue to commit a significant portion of its resources to SSA programs.

OIG reviews focused on conserving trust fund resources, insuring the accuracy of SSA payments and increase debt collection. SSA continues to respond favorably to OIG reports.

For fiscal year 1985, SSA concurred with OIG recommendations which identified additional savings of $321,100,000.

For the coming year, we will continue to work to improve management and fiscal controls over benefit payments, administrative costs, asset management of the trust funds.

In addition, we plan to increase our use of computer-assisted techniques in our investigative and audit work to enhance and improve the efficiencies of our human resources. The increased use of computer techniques has resulted in the identification of thousands of cases where individuals fraudulently received or were erroneously paid millions of dollars that they should have never received.

Improvements in computer fraud detection techniques are making it possible to take one known case and screen for others.

For those programs falling under other departmental components, such as public health or human development services, we will continue to make a high priority the identification of cost savings through consolidation of overlapping activities, productivity improvements, tighter controls over cash disbursements and collections, and other changes in processes and systems designed to improve management efficiency and ensure financial integrity.

Our grants and internal systems will therefore increase the assessments of internal controls, while performing management and efficiency audits of departmental operations. We will also increase the continuing oversight and technical analysis of all non-Federal audit reports received of single audits on an entity-wide basis.

Finally, we will continue to review Departmental regulations and legislative proposals for vulnerability to fraud and abuse and develop new cost-effective proposals for legislation.

During fiscal year 1985, we reviewed over 500 HHS regulatory and legislative change proposals. We expect this process to result in many significant program safeguards during the next fiscal year.

In closing, Mr. Chairman, let me assure you that this office if making every effort to provide a comprehensive and systematic program for rooting out fraud, waste and abuse in the Department's programs.

The entire OIG staff is very dedicated to finding ways to save money in the Department's programs. But more important, we are very dedicated to making sure that the resources set aside in our programs are delivered to the beneficiaries they are intended for.

We strongly believe that the indirect impact of our work far exceeds the dollars we are returning to the American taxpayer. I will be pleased to answer any questions you may have.

[The information follows:]

Mr. Chairman and Members of the Committee

Good Morning, I am Richard P. Kusserow, Inspector General of the Department of Health and Human Services (HHS). I am pleased to appear before you to discuss the President's FY 1987 budget proposal for the Office of Inspector General.

For FY 1987, our budget proposes $69,716,000 in total obligational authority of which $29,716,000 is requested in FY 1987 budget authority, and $40,000,000 is proposed for transfer from the Social Security and Medicare Trust Funds. The $69,716,000 total obligations request represents a $878,000 increase from the comparable level for FY 1986. The President's appropriation request of $29,716,000 is within the amount authorized under P. L. 94-505. Reimburements from the Social Security and Medicare Trust Funds are increased by $10 million to more accurately reflect Office of Inspector General (OIG) work in direct support of the programs financed by these trust funds. This shift in the source of OIG funding results in no change to the OIG's program level. The budget authority also reflects a reduction of $1,222,000 from FY 1986 budget authority for savings from office space renovation and rental costs.

Since 1981, The Office of Inspector General has actively fulfilled its statutory mission of providing leadership and coordination and recommending policies designed to promote economy and efficiency and preventing fraud and abuse in the Department's programs. As in the preceding years, we are continuing to keep our efforts in line by proportioning our staff resources consistent with the major allocations of the Department's total budgetary outlays and areas of high vulnerability. Consequently, Social Security, Medicare and Medicaid, and the Grants and Internal Financial Systems continue to consume the bulk of our audit, inspections and investigative resources. This redirection has, in turn, resulted in a continuous and progressive rise in our prosecutions, sanctions and savings and recoveries; all done with no real budgetary resource increase to my office over the last 5 years. FY 1985 was no exception as is indicated by the attached graphes.

During that fiscal year, we continued to practice our approach of improving OIG management by increasing our efficiency and effectiveness. Our accomplishments, as illustrated in our semiannual report, continue to exceed our earlier expectations. During FY 1985, over $4.9 billion in settlements, fines, restitutions, recoveries and savings were identified, thus supporting our upward trend. This represents a 3000 percent increase since 1981 and a return ratio of nearly $68 for each dollar spent to support OIG activities for FY 1985.

During the same timeframe our investigative efforts rose from 165 to over 1,005 successful prosecutions in FY 1985, a 600 percent increase. Also, we obtained administrative sanctions against 390 health providers and suppliers "kicked out" of the medicare and medicaid programs and patient abuse (a 19 percent improvement from FY 1984 to FY 1985 and a 1000 percent increase in the last 5 years). Both our level of prosecutions and level of sanctions represent progress over last year's achievements, and again, I point out that these results were achieved by better targeting the use of OIG resources for improved efficiency and effectiveness.

For FY 1987, the majority of our work will come from our program operations, comprised of the offices of Audit, Investigations, and Inspections and Analysis. The bulk of the OIG staff is divided among these components, with the Office of Audit having the largest staff complement. As mentioned previously, the workload of these components is devoted mainly to the big expenditure programs of the Department ... Social Security, Medicare, Medicaid, and Public Health ... programs which consume more than 95 percent of the Department's total resources.

The medicare and medicaid programs, administered by the Health Care Financing Administration (HCFA), provide health care for approximately 50 million Americans; nearly one out of every five citizens. For FY 1985, OIG recommendations adopted by HCFA and legislation resulting from OIG findings resulted in $3.0 billion in savings in medicare and medicaid. Further recommendations are under consideration. For example, we pointed out that some capital and medical education costs are improperly included in the cost base for the current diagnostic related group rates. Excluding those charges could prevent annual overcharges to the medicare program of $770 million. An OIG inspection of three DRGS identified substantial vulnerabilities in coding. The findings identified overpayments in excess of $20 million.

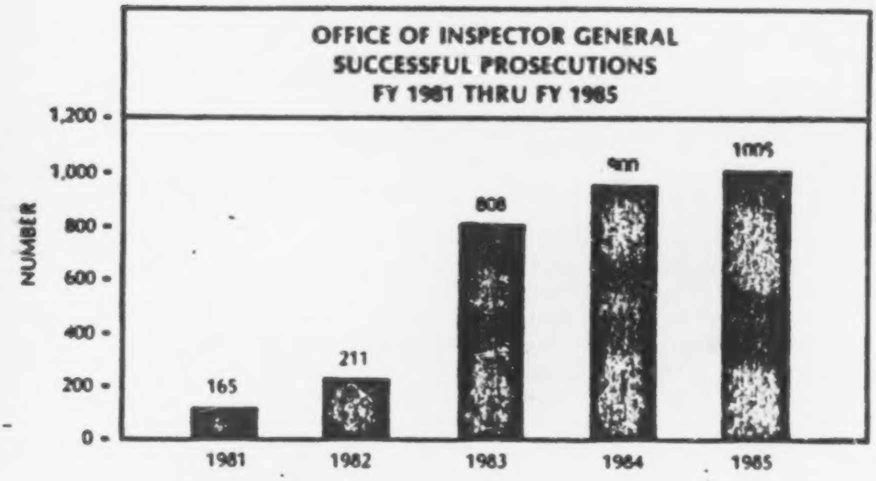
In FY 1987, significant resources will be devoted to medicare/medicaid programs in order to identify ways to contain health costs - particularly in the area of reimbursement for hospital and physician services. For example, OIG will continue to assess implementation of the Medicare Prospective Payment System (PPS). In addition, we plan to expand our evaluations of PPS abuses, such as improper coding of medical records, underutilization of services, unnecessary admissions, readmissions and inappropriate transfers or discharges.

Due to the large outlays of the Social Security Administration's program and the costly operational problems that persist, the Office of Inspector General will continue to commit a significant portion of its resources to SSA programs. OIG reviews focused on conserving trust fund resources, insuring the accuracy of SSA payments and increase debt collection. SSA continues to respond favorably to OIG reports. For FY 1985, SSA concurred with OIG recommendations which identified additional savings of $321.1 million. For the coming year, we will continue to work to improve management and fiscal controls over benefit payments, administrative costs, asset management of the trust funds. In addition, we plan to increase our use of computer assisted techniques in our investigative and audit work to enhance and improve the efficiencies or our human resources. The increase use of computer techniques has resulted in the identification of thousand of cases where individuals fraudulently received or were erroneously paid millions of dollars that they should have never received. Improvements in computer fraud detection techniques are making it possible to take one known case and screen for others.

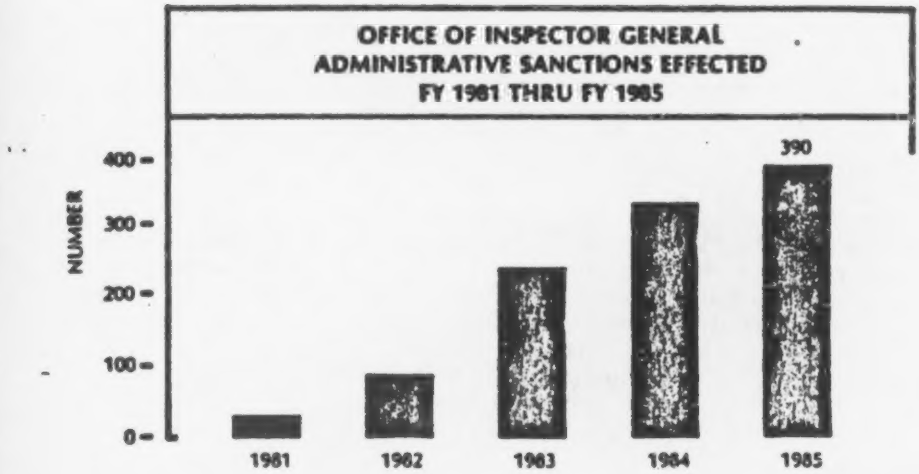
For those programs falling under other Departmental components, such as Public Health or Human Development Services, we will continue to make a high priority the identification of cost savings through consolidation of overlapping activities, productivity improvements, tighter controls over cash disbursements and collections, and other changes in processes and systems designed to improve management efficiency and ensure financial integrity. Our grants and internal systems will therefore, increase the assessments of internal controls while performing management and efficiency audits of Departmental operations. We will also increase the continuing oversight and technical analysis of all nonfederal audit reports received of single audits on an entity-wide basis.

Finally, we will continue to review Departmental regulations and legislative proposals for vulnerability to fraud and abuse and develop new cost effective proposals for legislation. During FY 1985, we reviewed over 500 HHS regulatory and legislative change proposals. We expect this process to result in many significant program safeguards during the next fiscal year.

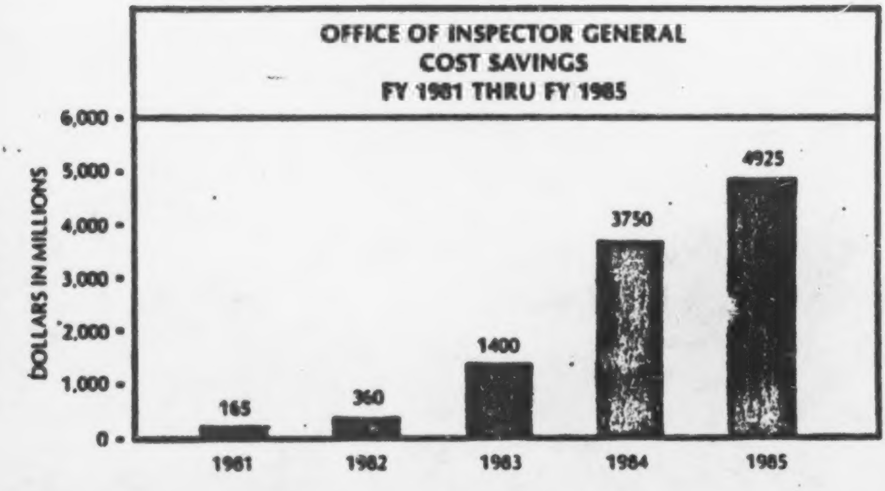
In closing, Mr. Chairman, let me assure you that this office is making every effort to provide a comprehensive and systematic program for rooting out fraud, waste and abuse in the Department's programs. The entire OIG staff is very dedicated to finding ways to save money in the Department's programs. But more important, we are very dedicated to making sure that the resources set aside in our programs are delivered to the beneficiaries they are intended for. We strongly believe that the indirect impact of our work far exceeds the dollars we are returning to the American taxpayer. I will be pleased to answer any questions you may have.



OFFICE OF INSPECTOR GENERAL
SUCCESSFUL PROSECUTIONS
FY 1981 THRU FY 1985



OFFICE OF INSPECTOR GENERAL
ADMINISTRATIVE SANCTIONS EFFECTED
FY 1981 THRU FY 1985



OFFICE OF INSPECTOR GENERAL
COST SAVINGS
FY 1981 THRU FY 1985

RICHARD P. KUSSEROW

Inspector General
Department of Health and Human Services

Richard P. Kusserow was nominated as inspector general of the Department of Health and Human Services by President Reagan in April of 1981 and confirmed by the Senate in June.

As inspector general of the Department of Health and Human Services, he is charged with the statutory responsibility to ferret out fraud, waste, abuse and inefficiency in the world's largest agency. The HHS budget of over $320 billion represents one-third of the federal budget and by itself would be the largest budget in the world after those of the U.S. government and the Soviet Union.

Included among the department's nearly 300 health and entitlement programs are Social Security, Medicare, Medicaid, Aid to Families with Dependent Children, Head Start, Foster Care and Native American programs. The Public Health Service alone includes the world's largest medical research center, the National Institutes of Health, along with the health protection activities carried on by the Food and Drug Administration, the Centers for Disease Control, the Alcohol, Drug Abuse, and Mental Health Administration and the Administration on Health Resources and Health Services.

Kusserow directs a staff of 1,287 auditors, inspectors, program analysts and investigators who recorded over $3.5 billion in savings last year, with over 900 convictions.

Kusserow currently serves on the President's Council on Integrity and Efficiency (PCIE), chairing the Legislative Committee and a number of key governmentwide projects including Computer Security and Computer Matching.

He earned his bachelor's degree in political science from UCLA, master's degree in government from California State University at Los Angeles, followed by postgraduate work at Southern Methodist University and John Marshall University Schools of Law.

Kusserow, a former college lecturer in government, served in the United States Marine Corps and was discharged as a captain. He was an intelligence officer with the Central Intelligence Agency (CIA) before moving to the Federal Bureau of Investigation (FBI) in 1969.

As an FBI agent, he worked in Pennsylvania, Washington, D.C., and West Virginia before being assigned to Chicago for the 13 years preceding his appointment as inspector general. A recognized authority on program fraud, white collar and organized crime, he established a number of new investigative squads in the areas of governmental fraud, public corruption, labor racketeering and organized crime. He acted as the coordinating supervisor for nine squads of agents constituting the Chicago FBI Organized Crime program.

He is twice elected president of the National Association of Federal Investigators and an active member of the Society of Former FBI Agents, Federal Law Enforcement Officers Association, Association of Government Accountants, International Association of Chiefs of Police, American Society of Industrial Security and the American Society for Public Administration. He has lectured widely and authored numerous articles on innovative investigative and management techniques on fraud and corruption in government programs.

March 1985

Mr. NATCHER. An amount of $1,815,000 is being sequestered from the 1986 appropriation, for your office. How will you achieve this reduction?

Mr. KUSSEROW. We have reduced our staff by 47 FTEs, and the dollar savings from salaries and expenses, accordingly. In addition, you have the space reduction, and a general squeezing in the balance of our budget to achieve those objectives.

Mr. NATCHER. Will this reduction result in fewer audits or investigations during 1986?

Mr. KUSSEROW. Yes.

Mr. NATCHER. The 1987 budget includes an increase of $10,000,000 in transfers from trust funds. What is the reason for the increase in trust fund activity?

Mr. KUSSEROW. We have been, for the past five years, shifting our emphasis into looking into the trust fund activities of the Department directly supporting them.

When I became the IG, a very small portion of our resources were devoted to trust fund activities. That doesn't represent the entire expenditure of our resources on behalf of the trust funds.

Probably two-thirds or more of our resources are in that area. This amount will bring it up to 57 percent of the expenditures of our Department.

I would hasten to point out, all of the work we do in the social security trust funds that result in recoveries and settlements goes right back to the trust funds, and they are benefited many times the level of support that we ask from the trust funds by the dollars that are in fact returned to them, so it is not harming the trust funds.

For every dollar we take from the trust funds, we turn back many, many dollars in direct recovery.

Mr. NATCHER. If we approve the requested trust fund transfer for 1987, it would result in almost 60 percent of your budget being financed from the trust fund.

Two years ago, less than 30 percent of your budget was financed from the trust funds. Does the Social Security Administration agree with your calculation of trust fund activity?

Mr. KUSSEROW. Yes.

Mr. NATCHER. Your office is responsible for auditing the Department's programs and operations. Has your office ever been audited, and if so, by whom?

Mr. KUSSEROW. We frequently have the honor of visits from GAO to doublecheck on exactly what it is that we are claiming in our own activities.

In addition, any savings that may come about as a result of legislative action, we will only use the CBO number, never our number, because we fear that the CBO number is more objective of our results. So yes, we do have outside audits.

In addition, to ensure the fact that we are kept on the straight and narrow, Congress built into our statute the fact that we have a direct reporting relationship, so all appropriating committees get a copy of the reports—we have standing committee requests which we comply with, we submit our reports to 13 different committees, as well as GAO that verifies it.

Mr. **Natcher**. For the record, supply a detailed analysis of the trust fund activity in your office for 1985, 1986 and 1987. Show the specific programs involved, the number of staff, dollar amounts, and any other information you have available to justify the request.

[The information follows:]

ACTUAL TRUST FUND ACTIVITY for FY 85
($ in millions)

	AUDIT cost per FTE ($50,700)		OAI cost per FTE ($62,990)		OI cost per FTE ($50,642)		TOTAL OIG		a/	ACTUAL DRAW	b/
	FTE	$	FTE	$	FTE	$	FTE	$	%	$ Transfer	%
SSA											
OASI	92.3	4.680	44.2	2.784	132.0	6.685	268.5	14.149	34	9.000	45
DI	17.7	.897	11.0	.693	61.0	3.089	89.7	4.679	11	.400	2
HCFA											
HI	80.4	4.076	33.1	2.085	35.0	1.772	148.5	7.933	19	2.600	13
SMI	114.6	5.810	22.1	1.392	157.0	7.951	293.7	15.153	36	8.000	40
TOTAL	305.0	$15.463	110.4	$6.954	385.0	$19.497	800.4	$41.914	100%	$20.000	100%

a/ Column shows percentage of activity in relation to total Trust Fund effort. The total Trust Fund effort ($41.914) is equal to 57% of the total FY 85 OIG budget of $73.391 million.

b/ Column shows percentage of Trust Fund draw for both FY 85 and FY 86.

FY 86 OIG MINIMUM TRUST FUND EFFORT REQUIRED BY EACH COMPONENT

($ in millions)

	AUDIT cost per FTE ($50,700)		OAI cost per FTE ($62,990)		OI cost per FTE ($50,642)		TOTAL OIG target		
	FTE	$	FTE	$	FTE	$	FTE	$	%
SSA									
OASI	88.1	4.466	42.2	2.656	126.0	6.378	256.3	13.500	45
DI	2.3	.115	1.4	.089	7.8	.396	11.5	.600	2
HCFA									
HI	39.5	2.004	16.3	1.025	17.2	.871	73.0	3.900	13
SMI	90.7	4.601	17.5	1.102	124.3	6.297	232.5	12.000	40
TOTAL	220.6	$11.186	77.4	$4.872	275.3	$13.942	573.3	$30.000	100%

Note: Dollars were based on FY 85 percentage effort in each trust fund. FTE figures were then backed into by dividing each component's dollars by the respective average cost per FTE based on the FY 85 rate (shown in parentheses).

FY 87 OIG MINIMUM TRUST FUND EFFORT REQUIRED BY EACH COMPONENT

($ in millions)

	AUDIT		OAI		OI		TOTAL OIG		
	cost per FTE ($50,700)		cost per FTE ($62,990)		cost per FTE ($50,642)		target		
	FTE	$	FTE	$	FTE	$	FTE	$	%
SSA									
OASI	117.4	5.954	56.2	3.542	167.9	8.504	341.5	18.000	45
DI	6.2	.306	3.8	.238	20.8	1.056	30.8	1.600	4
HCFA									
HI	105.4	5.344	43.4	2.734	45.8	2.322	194.6	10.400	26
SMI	75.6	3.834	14.6	.919	103.6	5.247	193.8	10.000	25
TOTAL	304.6	$15.438	118.0	$7.433	338.1	$17.129	760.7	$40.000	100%

Note: Dollar estimates are based on FY 85 percentage effort in each trust fund. FTE figures were then backed into by dividing each component's dollars by the respective average cost per FTE based on the FY 85 rate (shown in parentheses).

Mr. NATCHER. Your budget for 1987 shows an increase of $374,000 for contract audits and inspections. Is it less costly to conduct audits by contract rather than by using your own staff?

Mr. KUSSEROW. Yes. What we use are contract audit dollars to do the routine close-out audits, and to do support of the fiscal intermediary and carrier audits that need to be performed under the statute. I reserve my own staff to do the kind of work outside consultants would not be competent to do.

If I did not have that money, then I would have to divert my own staff from focusing on medicare, medicaid, social security issues, as well as Departmental Management, and to do basically those more routine, mundane, but yet required audit activity.

Mr. NATCHER. What has been your experience with the quality of contract audits?

Mr. KUSSEROW. I am probably among the more critical voices in the Federal audit community with regard to audits done by Federal auditors, and yet, at the same time, I am one of the strongest proponents. I testified on behalf of the Single Audit Act that would encourage more audits in grantee programs to be done by non-Federal auditors, and by auditors from the private sector, with us providing a closer oversight.

I think, to make the two work out, and to come together, requires that we have to have good oversight, and good, careful monitoring of the contract audits done by non-Federal auditors to ensure the fact that they are doing work to standard, and complying with our own requests.

With our audit staff overlooking any contract auditors, we don't have a problem with the work they do. We just won't pay them.

Mr. NATCHER. Several weeks ago, there was an article in the paper, entitled "One-Third of Government Grant Audits by Accountants are Sloppy," the GAO says.

Mr. KUSSEROW. They are primarily referring to the work done under the Single Audit Act by non-Federal auditors, and by contract auditors outside of government, and I have testified before Chairman Brooks on three occasions on this subject.

I have spoken not only as IG for the Department of Health and Human Services, but I did it on behalf of the entire Inspector General community, as we looked at the entire system, and the fact that we think the system needs more improvement.

We need to have closer oversight of those people and to make sure that they carry out their obligations to ensure good systems of accountability within our grantee programs, and not to try to substitute it by having more Federal auditors.

I think that it is more efficient to have it done in the way the Single Audit Act calls for. We have no choice about the matter because the law requires that it be done by non-Federal auditors and not by Federal auditors. So to make sure we comply with the Single Audit Act which requires a good oversight role on the part of the Inspectors General, we hold their feet to the fire.

Mr. NATCHER. What are some of the organizations that you use for contract audits? Large CPA firms?

Mr. KUSSEROW. We have not only big-8 type auditing firms, but increasingly, over the last few years, we have used 8-A firms, they are smaller, and with satisfactory results. It is pretty well split, but the trend is moving toward the smaller firms.

Mr. NATCHER. Generally speaking, do you believe they do a good job?

Mr. KUSSEROW. For us, they do a good job, because we make sure they do, or we won't pay them. If the Inspector General is paying out appropriated dollars from his budget to somebody, and they submit a claim saying they did work they didn't do, as far as I am concerned, the Office of Investigations can go out and take them to court, either to civil recovery or criminal recovery of those dollars.

As far as I am concerned, they don't get paid if they don't do the work.

Mr. NATCHER. Are any of your audits conducted by State or local government auditors?

Mr. KUSSEROW. Our Departmental program—over 50 percent of all granteed dollars from the Federal Government to State and local entities come from our Department. All of those dollars are under the Single Audit Act, and indeed will be performed by non-Federal auditors, which are State auditors or designees of State auditors or contract auditors. So we have 50 percent of all granted dollars are from the Federal Government in that area.

Mr. NATCHER. For 1987, your budget shows a decrease of 27 full-time positions. Is this decrease a result of some arbitrary employment ceiling imposed by OMB?

Mr. KUSSEROW. I thought we were doing a pretty good management job not knowing what the sequestration order would do. I started out the year keeping my staff below ceiling, to make sure that we would not be risking a possible RIF, but somewhere along the line, OMB set the new FTE ceiling for the Department at the current level, so those of us that were engaged in good stewardship and keeping our staff down until we could see what the effects of Gramm-Rudman-Hollings would be, probably got punished.

Those that were over ceiling have benefited from it, but I was one of those that lost 27 FTEs during the year.

Mr. NATCHER. Does this staff reduction bear any relationship at all to the actual workload and responsibilities of your office?

Mr. KUSSEROW. It will impact on it, Mr. Chairman. It has to. I don't know how much you can keep cutting staff. I have got roughly 130 auditors less than the day I arrived five years ago. It is going to have an impact on productivity.

Mr. NATCHER. Don't you have evidence that the staff costs of your office are more than offset by savings and recoveries resulting from your activity?

Mr. KUSSEROW. Yes, sir, Mr. Chairman.

Fines, savings, recovery, restitutions, as a result of IG activities return $68 for every dollar expended.

Mr. NATCHER. Several months ago, your office reported that colleges and universities are diverting large amounts of Federal research funds to help cover general operating expenses. This sounds like a serious problem.

Can you describe this situation and what can be done about it?

Mr. KUSSEROW. I will give you a full report for the record.

[The information follows:]

INDIRECT COSTS AT COLLEGES AND UNIVERSITIES

Mr. KUSSEROW. The growth of indirect costs, as a share of total research grant costs, has been the subject of numerous studies over the last 10 years by universities, congressional committees, private organizations and Government agencies. With regard to the growth of indirect costs, we estimate that from 1978 through 1984, annual payments to universities and colleges for indirect costs increased from about $900 million—an amount equal to 36 percent of the funds used for direct research in 1978—to $1.7 billion which is equivalent to 46 percent of the $3.7 billion provided for direct research in 1984.

Our study approach was to review objectively indirect costs trends over a period of time rather than basing our study on a snapshot. As part of our study, we developed a computer model to establish an average departmental administration rate that, in our opinion, will provide universities with a reasonable allowance for research administration at the department level.

We used data covering a 6-year period, compiled from 13 of the top 100 research universities, as the primary basis for our study. Although approximately 650 of the nation's 2,700 universities and colleges receive research funds from the Federal Government, the top 100 receive about 85 percent of the total amount awarded.

The universities we studied are: Harvard (PR); U. Iowa (P); Yale (PR); Washington, U. (PR); Boston U. (PR); U. Missouri (P); U. Connecticut (P); Johns Hopkins (PR); UC—Los Angeles (P); U. Pennsylvania (PR); UC—Berkeley (P); Temple (P); and U. Massachusetts (P). (PR)—Private School. (P)—Schools wholly or primarily supported by State appropriations.

The universities received an estimated $760 million in fiscal year 1984, or about 17 percent of the research funds made available by the Government to the top 100 schools. The ratio of indirect costs to direct research costs for the universities' studies was about 51 percent in fiscal year 1984 as compared to 46 percent for all research universities and colleges. Under these circumstances, we believe the 13 schools included in our study are representative of the top 100 universities receiving research funds from the Federal Government.

During our study, we held discussions with and/or obtained data from representatives of the Office of Science and Technology Policy, National Science Foundation, Office of Naval Research, the Council on Government Relations, and HHS's Public Health Service, National Institutes of Health and Office of the Assistant Secretary for Management and Budget.

Generally, we found that most increases in indirect costs are reasonable and beneficial to research sponsored by the Federal Government, except for those increases applicable to the pool of indirect costs referred to as "departmental administration." For the most part, increases in the other indirect costs pools were caused by inflation; special and scientific studies conducted by universities to related buildings and equipment usage and related energy and fuel costs to Government sponsored research; and increased conversions from use of allowances to depreciation.

With respect to the departmental administration cost pool, where payments increased from an estimated $275 million in fiscal year 1978 to an estimated $575 million in fiscal year 1984—or to an amount equivalent to 15.4 percent of the direct cost of scientific research, we estimate that in fiscal year 1984 over $300 million of such payments did not benefit and, therefore, should have been allocated to the major university functions of instruction and other institutional activities. Departmental administration costs that we believe were not beneficial to Government sponsored research, although difficult to identify, quantify and challenge under the current provisions of Office of Management and Budget (OMB) Circular A-21, include (1) faculty salaries, (2) certain clerical and technical salaries and other operating expenses, and (3) certain costs allocated to departmental administration from other indirect costs pools.

Accordingly, our study confirmed the existence of savings opportunities and led us to recommend a fixed allowance for the highly controversial departmental administration component of the indirect cost rate.

Mr. KUSSEROW. What we found is that over the last few years, the indirect costs, the unallocated overhead, has risen proportional to the research dollars that we grant out, primarily out at NIH. Of the money going to university research, we saw it rise from 6 percent to, in some areas, to where it was dollar for dollar; that is, for every dollar of research and direct overhead, they had a dollar of indirect overhead, and we thought that was unconscionable.

NIH spends more money on unallocated overhead for universities, library services, campus guards, the buildings and grounds maintenance than they do on cancer research, and there is something cockeyed when that happens.

So, somewhere along the line, we have to establish a better business relationship with the universities who we are asking to engage in vital research for the Federal Government and at the same time, limit them from taking money out devoted for research, and using it for unallocated overhead.

Mr. NATCHER. I read a couple of paragraphs that appeared in a story recently. "Hundreds of millions of dollars awarded for scientific research are being siphoned off by universities in unrelated administrative expenses, according to the Inspector General of Health and Human Services.

"In 1984, colleges and universities redirected $1,700,000,000, or 31 percent, of all Federal funds given for laboratory research to help offset institutional expenses.

"HHS Inspector General Richard P. Kusserow said in a previously published report to the Office of Management and Budget, the expenses included faculty and clerical salaries, fringe benefits, equipment and purchases."

This means a lot to Mr. Conte and me, and the other members of this subcommittee. When we were first elected, as far as the National Institutes of Health were concerned, they had $77,000,000. Think about it.

We are up to $5,800,000,000, about, and that is where it ought to be. If you said to me it was $7,000,000,000, I wouldn't disagree that that is the amount that should be in there. We have come from $77,000,000. We know as much about this as anybody that has ever served on this committee, and I say that to you frankly.

When we read stories like this, it is of great concern to us, and I want you to know, Mr. Kusserow, there is no university or college that we believe should be doing this.

As hard as we work preparing this bill, passing it in the House, sending it to the Senate, after bringing people here from all over the United States. I think your statement was good.

What do you say further about this?

Mr. KUSSEROW. Well, Mr. Chairman, we are talking about unallocated costs that is rising up to one-third of total costs. By comparison to the Department with its $360,000,000,000 outlays, we are talking about General Departmental Management, and that is what you are wrestling with today.

How would you like to be considering a General Departmental Management budget of $100,000,000,000, because proportionately, that is what we are talking about.

There is something way out of line when you have unallocated costs being charged against the research, as we have found in some cases where it equals the amount of research being performed; for every dollar going into research and the direct costs of doing that research, one dollar is going to the university to be allocated out in some way nobody can document, and we are seeing an unfortunate trend that continues to be, year after year, moving in the direction of a higher bite out of the research dollar going to this unallocated overhead.

When we have such budgetary constraints, Federal and State government, the trend is going to be more toward universities looking for opportunities to shift cost in an area where somebody else could pay for it.

Unless we get that back under control, we are really going to risk our ability to do some of the vital research that this Department engages in, as far as the health of the American people.

So I feel very, very strongly we need to do it. The fact that I am caught as an auditor and audit for all Federal funds at 96 percent of all colleges and universities, 2,800 schools, with a staff of 650 auditors, and that represents less than 2 percent of our Department's exposure, it would help me if we did not have to go out and audit time and time again to try to find out how many people are dealing with the system.

I appreciate your support on this, Mr. Chairman.

Mr. NATCHER. We are certainly behind you on it, Mr. Kusserow, and it means a whole lot to us, and I say that to you frankly. We are going to talk to you next year some more about this.

Mr. Conte, I yield to you.

Mr. CONTE. Mr. Kusserow, we are very pleased to have you testifying again before this Subcommittee. Your work over the last four years has been invaluable to this country, this Department and to me personally, and I thank you for it.

Let me begin by taking a look at your budget. Your operations were cut about $3,000,000-plus under the Gramm-Rudman-Hollings massacre. What specific activities did you eliminate or curtail because of this cut?

Mr. KUSSEROW. When you are an organization that is basically 80 percent salaries and expenses, and the bulk of the rest being SLUC charges, there is one area that you can really do large cuts in—staff.

We cut 47 staff this year, and eliminated their space, salaries and expenses, and across-the-board cuts to manage to get the balance. We feel it.

Mr. CONTE. But when we are talking about staff, we are talking about savings and recoveries in the millions and millions of dollars if we had these people out there.

Mr. KUSSEROW. This year, with the things in our pipeline, we can continue to perform at previous levels. But you are quite right, as that pipeline dries up and as our staff is thinned out, our ability to generate new work that will result in dollar recoveries or savings to the Department's programs, or investigate the wrongdoers who engage in fraud or abuse or to sanction those people, is going to be diminished.

Mr. CONTE. Will you still be able to show the amazing increases we have seen in the last few years in prosecutions, sanctions, savings and money returned to the Treasury with these kinds of cuts in your budget? And what about in 1987? Even with the increase in money from the trust funds, you are still going to a level below where we put you in the 1986 bill. How do you feel about that?

Mr. KUSSEROW. I am not sure I can hold the 1986 level. I feel that by 1987, our statistics are going to have to dip somewhat.

Mr. CONTE. I hope when we mark up this bill, and all these guys in our Subcommittee come in with their pet projects—and some cost $500,000,000—when I put in an amendment for a few million more for you that they will go along with that.

This has no constituency, except maybe the Chairman and I and a few others, who realize how important this is.

Mr. **Kusserow**. Thank you, Mr. Conte.

Mr. **Conte**. None of the money we give you is ever wasted. You give us a return on the dollar we invest, no matter what it is. If we increase this budget for you by $10,000,000 or $15,000,000, that is an investment, and we will bring in a lot more money, and put a lot of criminals behind bars.

Tell me what would happen if Gramm-Rudman-Hollings hits you again in 1987?

Mr. **Kusserow**. If we move ahead for another year, I will use the same method to achieve the goal. I can assure you that we will not have any reductions-in-force, any RIFs; that we will do it by reducing staff, and immediately start to close down branch offices and consolidate our existing resources to deal with the problem, and produce by trying to increase efficiency and output to compensate for less staff.

Mr. **Conte**. How much do you think you saved, give me a ball park figure in dollars, in 1985?

Mr. **Kusserow**. $4,900,000,000.

Mr. **Conte**. $4,900,000,000.

How about for 1984?

Mr. **Kusserow**. $3,200,000,000 for 1984.

Mr. **Conte**. How many providers and suppliers have been "kicked out" of HHS programs by your latest estimates, and how does that compare to the year before you took office?

Mr. **Kusserow**. 1981, the sanction authority was not with the Inspector General, but HCFA. They kicked out 39 providers of health services, and nursing home suppliers, and other such administrators in the Medicare Program.

Secretary Heckler transferred that to me in 1983, and we had kicked out 390 in 1985. We kicked out two and a half times the previous 11 years put together.

Mr. **Conte**. As you know, Congress finally got a reconciliation bill down to the President last month. How many of the budget saving measures in that bill are attributable to your work, and can you describe some of them for us?

Mr. **Kusserow**. I will tell you that we are still tyring to analyze it, and try to see how closely the COBRA-passed legislation passed our recommendations, and what the implications were.

Among the areas that we had documented reports for, that suggested there be changes, are the formula for indirect teaching adjustments, which we are looking at now, and CBO still hasn't gotten the numbers up, but it will come out to about $2,500,000,000; hospital payments for direct costs for medical education. We are trying to see whether that parallels our recommendations or whether that is a different approach.

Equity capital for in-patient and other services, relating to the recommendations that we had made and adopted. Savings are somewhere between 700,000,000 and 1,000,000,000.

The elimination of medicare payments for cataract surgery patients was picked up, and I am still trying to analyze how closely that follows our recommendations. I can't make a determination at this point.

Payment for assistance at surgeries for cataract and other operations that are elective. We are still trying to determine how closely that parallels it, and whether it directly tracks from our recommendations.

The payment for assistance at surgery for cataract and other operations, or the next one, the peer review for certain surgical procedures requiring mandated second surgical opinions, such as they have in medicaid in your State, should save about $500,000,000.

There are recommendations that we have made that allow States that provide medicaid to do so without also providing a family cash assistance payments under adoption assistance programs. We are looking at that to determine any dollar consequences.

COBRA picks up a lot of our recommendations.

Mr. CONTE. One issue that is really on the front burner for us is the whole issue of quality of care under the new prospective payment system. What investigations and studies do you have ongoing in this area, and what is your opinion of the changes this system has made in our health care delivery system?

Mr. KUSSEROW. We were a very strong proponent of the PRO concept as the peer watchdog in the health care facilities and hospitals.

There is no other way which you can assure quality care under PPS. Our concern was from the beginning, in 1982, when we went through and trying to develop implementing instructions and regulations for PPS was the fact that we felt there would be vulnerabilities in the patterns of admission, treatment and discharges, and transfers.

We have reports coming out on all those areas. One of the things we heard from the PROs was that they didn't have enough money. I met with AMPRA, and I immediately ordered audits of every PRO, and we showed that they were making quite sufficient funds to carry out their application.

We are paying the PROs enough to do the job. I think that in some cases, they are doing their job. In other cases, they are not, and they should be kicked out of the program.

We are actively pursuing what the Congress gave the PROs, the old PSRO program did not have, and that is the ability to recommend sanctions. I oversee that program.

We have only had 390 to date, but that 390 is several times more than in the old PSRO program. When I find a physician that is impaired either by disease or alcohol or drugs, or one that is incompetent, hasn't picked up a piece of medical literature since he left medical school, or for whatever reason, we should make every effort to kick those people out of the program.

I would hope by next year, I could start showing you the kind of work we do to improve the program. We are making progress.

I think that we are seeing now that the quality of the practice of medicine under medicare is improving as a result of PPS, because of the fact that for the first time, many of these physicians now have somebody who is a peer looking at what they are doing, and that has an effect by itself. So I am very heartened, but not entirely satisfied with the progress we have made.

Mr. **Conte**. That is good.

What is the total debt owed by the public to the Department as of the end of the last fiscal year?

Mr. **Kusserow**. The receivables, meaning the money owed to us, was in millions of dollars, was 3,765.

Mr. **Conte**. No.

Mr. **Kusserow**. Almost $3,800,000,000.

Mr. **Conte**. $3,800,000,000.

Mr. **Kusserow**. The collections, if you want to measure that against the collections we had in the Department during the same period of time, was almost $1,900,000,000. Delinquencies, $380,000,000.

That is a steady progress that has been made over the years by Departmental Management.

Mr. **Conte**. Put it in for the last couple of years.

[The information follows:]

DEBT COLLECTION

[Dollars in millions]

	Fiscal year		
	1985	1986	1987
Receivables (end of year)	$3,553	$3,694	$3,765
Collections	1,814	1,733	1,853
Delinquencies	457	379	380

Mr. **Conte**. Inspector, as you know, we are moving more and more towards transacting all of our business over computer lines and away from paper. What can your office do to detect computer fraud? Do you have methods that you feel confident about?

Mr. **Kusserow**. This is an area that I have been charged to coordinate within the Federal Government; the whole issue of computer security with regards to integrity and efficiency.

We need to guard the data within the systems, to make sure that it is good data, and not polluted with inappropriate data that will result in fraud against the programs.

We have to have a system to ensure the integrity of the systems themselves, and therefore, reduces vulnerability to somebody coming in and engaging in fraud.

We have just issued a report—a second report on computer fraud in the Federal Government, the first report dealt with an empirical study we had done government-wide of reported cases.

The second study was a follow-up study of all the convicted perpetrators, those people caught dealing with computer data, what opportunities did they find, the extent of their crime; what was their motive for doing it; the characteristics of the individuals that engaged in that kind of behavior. We found a lot of enlightening things, all government-related programs, and I would be happy to submit that for the record.

Mr. **Conte**. Please do.

[The information follows:]

EXECUTIVE SUMMMARY

Mr. **KUSSEROW**. The President's Council on Integrity and Efficiency directed the Inspector General of the U.S. Department of Health and Human Services to follow-up on its 1983 study, "Computer-Related Fraud and Abuse in Government Agencies," by interviewing the perpetrators of computer-related fraud cases. Staff from HHS/OIG interviewed 46 perpetrators regarding how and why they committed their crimes. Although not a statistically valid sample, those interviews provide the following information on computer-related fraud among Government agencies.

The perpetrators were insiders, i.e., they were Federal employees, or employees of state, local, and private agencies administering Federal programs. In general they were young, good employees with an average of 5 years employment with the agency. Most had above average performance ratings, and most had been promoted at least once. Just over one-fifth had a prior criminal record.

They held a wide variety of positions within the agencies ranging from a senior program manager to an entry level clerk. The more common positions were caseworkers, clericals, and data entry technicians. Most were in a position to cause checks to be issued, although many did not have direct access to the computer.

Typically, the perpetrators committed their crime by manipulating input data to cause funds to be issued, and most were aided by co-conspirators. They generally used one of three schemes: modifying existing cases in a benefit or payroll system; creating false cases in those systems; or creating false claims in a reimbursement system. Many destroyed the paper or electronic evidence of their crimes.

On the average, the period of criminal activity took place over six months. The number of illegal transactions per case ranged from 1 to 200 with a median of 8. The reported average loss per case was $45,000, and about one-fifth of the cases exceeded $100,000.

Three-quarters of the perpetrators reported that they stole money in response to a situational stress. Most commonly it was a personal financial problem or disgruntlement with the job. Others, not motivated by stress, had discovered vulnerabilities in the system and could not resist that temptation.

Nearly half reported that they didn't even think about the consequences of their actions when they committed the crime; others assessed the risks of getting caught as minimal. Many reported that they were personally aware of crimes like theirs or had heard of such crimes.

Most perpetrators were aware of computer security controls but assessed them as weak. They described ID numbers and passwords as simplistic, edits and screens as known and therefore avoidable, and supervision as lax or native regarding automated systems. They pointed out that access to or within computer systems was often not restricted. The perpetrators also made a number of recommendations on how to strengthen Government computer systems.

In order to address the vulnerabilities noted in this study, it is recommended that: Computer fraud perpetrators be routinely debriefed; automated system controls be strengthened; security and system control guidance to State, local and private agencies be reevaluated; line managers receiving training on internal and system controls; and personnel security procedures be reviewed.

Mr. **CONTE**. I only have a couple more questions.

What actions are you taking in the area of fraud prevention as opposed to your efforts in fraud detection?

Mr. **KUSSEROW**. The basic philosophy I have had over the past years was to say any time you could develop a means by which you could detect criminality, inappropriate expenditures, you could always move to the front end side and prevent it.

We found in the State of Texas a few years ago, a way to identify those individuals obtaining program benefits off of social security numbers not yet issued, and purged that from the system and saved the taxpayers of the State of Texas, as well as the Federal Government, millions of dollars.

We did the same thing in a more sophisticated form as we found characteristics that were illogical to the individual. For example, somebody 27 years old having a number issued in 1936.

In California, we found over 5,000 individuals obtaining program benefits with illogical numbers, costing the taxpayers out there $5,000,000.

Well, those are the things that are great for detection, look good putting on my staff board, but if we can move it to the front end system where somebody would come in and ask for a program benefit, and they were to present a fabricated social security number or one that was stolen, or one that was counterfeited, while the person is still there, that claims person could type it in there, and have the same program kick it out, again while the person is still standing there. The claims person could then say, "May I see the card," there seems to be a problem, and resolve it.

It would prevent us going in after the fact, which is very costly to identify and rectify it.

Secondly, one the front end side, it would save possibly somebody going down the Primrose Road for engaging in criminality by preventing them from doing it in the first place.

All of our effort toward identifying those kinds of systemic weakenesses that invite fraud, waste and abuse, has been the whole thrust of what we have been doing.

So in that respect, everything that we do is moving toward prevention. If the President wanted to have an archaeologist at HHS to dig up the bones of past sins and something else, they would have gotten an archaeologist for the job.

I am not.

Mr. CONTE. Last question:

I heard that you were appointed as Vice Chairman of the President's Committee on Integrity and Efficiency. Congratulations. Can you tell us what that Committee does, and what issues you look at?

Mr. KUSSEROW. It is designed to bring all the IGs together, OMB, Department of Justice, to look across the entire Federal Government. An IG in one Department invents a wheel, and I try to invent the same wheel.

The chairman's role, by Presidential Directive, is the Deputy of the Office of Management and Budget, Joe Wright, at the present time. The Vice Chairman is an Inspector General, who would be basically first among peers, whose job it is to coordinate the IG community.

That is the role that I now have. We will be looking at projects such as computer security, cash management, debt management, and indirect costs, to determine if there are other areas where unallocated overhead is eking up at the expense of program dollars, things of that sort.

That is the role that I would have in the coming year.

Mr. CONTE. Let me again congratulate you and hope the good Lord keeps you healthy and strong, so, you can continue on your good work.

Mr. NATCHER. Mr. Kusserow, we want to thank you and your associates for appearing before our committee at this time on behalf of your budget request for fiscal year 1987. It has been a good hearing, and thank you very much.

[The following questions were submitted to be answered for the record:]

Local OIG Office in Washington, D.C.

Mr. Hoyer. What is the current status of the four employees who used to work in the D.C. office?

Mr. Kusserow. Prior to the date of closure, one employee applied and was selected for a job in headquarters (D.C.) One employee resigned and another applied for discontinued service retirement, concurrent with the closing of the office, March 14, 1986. The fourth employee was given a directed reassignment to Richmond and reported on March 17, 1986. He subsequently accepted a job with another Federal agency in D.C. on April 14, 1986.

Mr. Hoyer. How many other offices have you closed?

Mr. Kusserow. To date, we have closed seven field offices. Three additional offices will be closed by June 30, 1986 and we are planning to close one or two others by September 30, 1986.

Mr. Hoyer. What is the criteria for closing offices?

Mr. Kusserow. Insufficient workload to justify continuation of the office.

Mr. Hoyer. Is there a minimum staffing level for each office?

Mr. Kusserow. No. However, we generally have found, through experience, that offices with actual or projected staffing of four or less not to be viable.

Mr. Hoyer. How many people do you now have in the Richmond and Harrisburg offices?

Mr. Kusserow. At the time the justification for closing the D.C. office was prepared, there were five professional staff members in Harrisburg and four in Richmond. Currently, there are two auditors in each location.

Mr. Hoyer. How many people have been hired in the last year in the Philadelphia office?

Mr. Kusserow. In the past year, we hired 15 auditors in the Philadelphia office.

Mr. Hoyer. How much of the work in this region is done in that office? My numbers suggest that its about 37 percent.

Mr. Kusserow. Currently, we estimate that about 60 percent of the work in the region is being performed at the Philadelphia office.

Mr. Hoyer. Is it true that one employee who has transferred back to the Richmond office after being sent to the D.C. office several years ago because of the workload in the D.C. office?

Mr. Kusserow. The employee in question transferred to the D.C. field office on July 2, 1979 at no cost to the Government. It was a voluntary move on the employee's part, not as a result of workload considerations.

Mr. Hoyer. Was that employee also reimbursed $43,000 for moving expenses?

Mr. Kusserow. No. His move from Richmond to was at no expense to the Government. We will pay only temporary duty expenses for him for the period he actually was in Richmond before transferring to IRS in D.C., March 17 to April 11, 1986.

Mr. Hoyer. How much have you budgeted for in your FY 86 and FY 87 budget for travel and expenses for auditors from Philadelphia and Richmond who have to come to Washington to perform audits?

Mr. Kusserow: In FY 86 to date, we have spent about $26,000 primarily as a result of a Congressional request. If another proposed assignment is actually started, we would spend an additional $5,000. Due to changing priorities and uncertainties surrounding available staff, we have no estimate for FY 87. The financial planning process for FY 87 will begin sometime in June.

MEDICAID FRAUD

Mr. Hoyer. Mr. Kusserow, my office was recently contacted by a constituent who works with the Medicaid program in my county. She suggests that there are a large number of Asian Americans who periodically bring their non-resident relatives to this country, obtain Medicare cards for them through fraudulent means, there upon getting medical services for these people and after the services are provided, they return to their homeland, be it Korea or Vietnam. She stated that the particular family member will come here two to three times a year. Are you aware of such problems; if not, how can I assist in an effort to investigate this allegation?

Mr. Kusserow. My Office of Investigations (OI) has not received any complaints or information regarding Asian Americans fraudulently receiving Medicaid cards or medical assistance benefits for ineligible relatives. In 1984, our California offices worked jointly with California State authorities on an investigative project where Indochinese refugees were fraudulently using Medicaid to obtain prescription drugs which were sent to their homeland in Southeast Asia for sale on the black market. This project, however, was limited to the California area and did not involve any fraud scheme similar to the one you have described. If you have any information about the scheme you described, please furnish it to our office so that we may launch an investigation.

FTES IN FY 87 BUDGET

Mr. Hoyer. How many people or FTE(s) will you lose under the proposed FY 87 Budget? (Justification shows decrease of 27).

Mr. Kusserow. Nineteen We will be reduced from the current FTE level of 1,233 to a new level of 1,214 in FY 1987. The 27 number is a projected on-board total which we do not use for budget purposes.

Mr. Hoyer. How will this affect the operation of your office?

Mr. Kusserow. It will affect our staff workload but at this time, I am not sure of the extent of the impact caused by the reduction.

PROGRAM ACCOMPLISHMENTS

Mr. Hoyer. Mr. Kusserow, on page 091 of the justification, I was pleased to read the program accomplishments section. You make the statement that "decreases are expected for FY 1986 and FY 1987 in proportion to staffing and resource reductions." Could you briefly explain this statement and then provide more detail for the record?

Mr. Kusserow. Saving output, given a staff reduction, can be sustained in the long run only by increases in efficiency. In the short run, saving outputs might be sustained due to the normal lag time between the time we complete an audit, inspection or investigation and the time at which a sanction, saving or conviction occur and is reportable. An example of this is in the unimplementable recommendations that exist in our semiannual report which are subsequently resolved. If, for any one of a number of reasons, management does not agree to implement our recommendations, no savings would be reported. In FY 86, however, if management agreed or Congress passed legislation to implement our recommendations, a savings would be reportable. So, at any given time, there is an inventory of unimplemented OIG recommendations which could be savings if management or Congress acts.

OIG REVIEWS

Mr. Hoyer. Recent OIG report identified opportunities to contain indirect cost of federally sponsored research. Has any action been taken to implement the recommendations?

Mr. Kusserow. OMB is holding a series of discussions with several state and business groups. The Council on Government Relations is expected to propose a redefinition of departmental administrative costs in the near future which will service as the basis for containing indirect cost.

Mr. Hoyer. Has any legislative or administrative action been taken as a result of your study on limiting Medicaid payments for the buy-in program?

Mr. Kusserow. The Health Care Financing Administration (HCFA) has concurred with our findings. HCFA is now considering ways in which to implement our recommendations. It is part of this year's budget request.

Mr. Hoyer. Has any legislative or administrative action been taken as a result of your audit concerning the DRG cost base?

Mr. Kusserow. In early 1985, OIG informed HCFA of our findings that capital and medical education were improperly included in the DRG cost base. This issue is currently under study within HCFA.

Mr. Hoyer. Has any corrective action been taken as a result of your study on shared living arrangements to eliminate the favored treatment now being given to joint SSI/AFDC household?

Mr. Kusserow. We issued our draft report to the Social Security Administration (SSA) in early 1985. We are continuing discussions with SSA to agree on appropriate actions.

HEAD START

Mr. Hoyer. According to your justification, 75 percent of all Head Start grantees receive unemployment compensation during the summer and your office is working with the Department of Labor to eliminate this loophole. Why do you consider this a loophole?

Mr. Kusserow. Because all Head Start staff employed by public school systems are currently prohibited by law from collecting between-term unemployment benefits, it is inequitable that Head Start staff employed in other settings continue to collect unemployment compensation during the summer. Further, we believe that using such benefits to supplement Head Start salaries is an inappropriate and inefficient use of the unemployment compensation, because Head Start employees know they have jobs to return to in the fall and are not actively seeking other employment. Therefore, we believe all Head Start staff should be considered as employees of "educational institutions" within the meaning of the Federal Unemployment Tax Act. The Administration has proposed such a provision both in appropriations language and in Head Start reauthorization.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

DEPARTMENTAL MANAGEMENT

Office of Inspector General

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C.

DEPARTMENTAL MANAGEMENT

Office of the Inspector General

For expenses necessary for the Office of the Inspector General, [$42,219,000] *$29,716,000* together with not to exceed [$30,000,000] *$40,000,000* to be transferred and expended as authorized by section 201(g)(1) of the Social Security Act from any one or all of the trust funds referred to therein.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
DEPARTMENTAL MANAGEMENT
Office of Inspector General

Amounts Available for Obligation[1/]

	1985 Actual	1986 Estimate	1987 Estimate
Appropriation	$62,391,000	$42,219,000	$29,716,000
Sequester order		- 1,815,000	
Comparative transfer to:			
Health Care Financing Administration, grants to States for Medicaid Fraud Control Units	- 9,000,000		
Subtotal, adjusted budget authority........	53,391,000	40,404,000	29,716,000
Receipts and reimbursements from:			
Trust funds	20,000,000	30,000,000	40,000,000[2/]
Sequester order		- 1,290,000	
Unobligated balance lapsing..................	-867,000[3/]	-276,000[4/]	
Total obligations	$72,524,000	$68,838,000	$69,716,000

[1/] Excludes the following amounts for reimbursements: FY 1985 - $1,566,000 and 20 FTEs; FY 1986 - $600,000 and 0 FTEs; FY 1987 - $600,000 and 0 FTEs.

[2/] Financing from SSA and HCFA trust funds has increased by $10 million to more accurately reflect OIG work dedicated to trust fund programs. This shift in the source of OIG funding results in no change to OIG's overall obligational authority. This amount is also subject to sequestration.

[3/] Includes withholding of $354,000 pursuant to Section 515 of 1985 Treasury-Postal Services Appropriations Act and over $500,000 in grant funds.

[4/] Reflects withholding of $276,000 pursuant to Section 515 of 1986 Treasury-Postal Services Appropriations Act.

Office of Inspector General

Summary of Changes

1986 Estimate, budget authority	$42,219,000
1986 Sequester order	-1,815,000
Total estimated budget authority	40,404,000 [a]
(Obligations)	(68,838,000)
1987 Estimate, budget authority	29,716,000
(Obligations)	(69,716,000)
Net change, budget authority	-$10,688,000
(Obligations)	(+878,000)

Increases:	1986 base Pos. (FTE)	1986 base Budget Authority	Change from base Pos. (FTE)	Change from base Budget Authority
A. Built-in:				
1. Career ladder promotions, bonuses, within grade step and employee benefit increases	1,302 (1,233)	$51,268,000		+$1,869,000
2. Increased rates of rental to GSA		3,918,000		+ 567,000
Subtotal				+$2,436,000
B. Program:				
1. Increase in contracts for audits and inspections to partially offset staff reductions		$2,326,000	—	+ 374,000
Total, increases	—	—	—	+$2,810,000

[a] Includes $276,000, which will be withheld per Section 515 of the Treasury-Postal Services Appropriations Act of 1986. After this adjustment, the amount of available budget authority would be $40,128,000.

Office of Inspector General

Summary of Changes—Continued

Decreases:	1986 base Pos. (FTE)	1986 base Budget Authority	Change from base Pos. (FTE)	Change from base Budget Authority
A. Built-in:				
1. Decrease in renovation costs	—	$1,288,000	—	-$925,000
2. Rental cost reduction due to office space consolidation 1/	—		—	-297,000
		Subtotal	-	-$1,222,000
B. Program:				
1. Decrease in salaries and fringe benefits due to staff reductions	—		-27 (-19)	-497,000
2. Decrease due to staff reductions in travel, communications, printing, supplies & equipment and other services. . .	—	10,038,000	—	-213,000
		Subtotal	-	-$710,000
Total, decreases	—	—	-27 (-19)	-$1,932,000
Net change	—	—	-27 (-19)	+$878,000

1/ The decrease for FY 1987 rental payment results from reduction in the square footage utilization to conform with GSA standards.

Budget Authority by Activity

	1986 Appropriation		1986 Available after Sequestering		1987 Estimate	
	FTE	Amount	FTE	Amount	FTE	Amount
Executive Management	33	$1,634,000	29	$1,586,000	28	$1,507,000
Program Operations	1,247	70,585,000	1,204	67,252,000	1,186	68,209,000
Subtotal	1,280	72,219,000	1,233	68,838,000 1/	1,214	69,716,000
Trust Fund Transfer		-30,000,000		-28,710,000		-40,000,000
Total, obligations	1,280	42,219,000	1,233	40,128,000	1,214	29,716,000

1/ Reflects $276,000 withheld pursuant to Section 515 of the 1986 Treasury-Postal Services Appropriations Act.

Budget Authority by Object

	1986 Approp.	1986 Available After Sequestering	1987 Estimate	Increase or Decrease
Total number of full-time permanent positions	1,302	1,302	1,275	-27
Full-time equivalent employment	1,280	1,233	1,214	-19
Average ES salary............	$66,725	$66,725	$67,250	+525
Average GS/GM grade..........	11.13	11.13	11.10	-.03
Average GS/GM salary.........	$36,426	$36,426	$37,624	+$1,202
Average grade, grades established by act of July 1, 1944 (42 USC 207) Commissioned Corps.........	4.6	4.6	4.7	+.1
Average salary, grades established by act of July 1, 1944 (42 USC 207) Commissioned Corps.........	$42,785	$42,785	$45,941	+$3,156
Personnel compensation:				
Full-time permanent	$45,745,000	$43,952,000	$45,139,000	+$1,187,000
Other than full-time permanent..............	637,000	602,000	612,000	+10,000
Other, personnel compensation...........	489,000	460,000	470,000	+10,000
Total personnel compensation	46,871,000	45,014,000	46,221,000	+1,207,000
Personnel benefits:				
Civilian	6,329,000	6,204,000	6,369,000	+165,000
Former Personnel	50,000	50,000	50,000	—
Travel and transportation of persons.................	4,265,000	4,060,000	4,037,000	-23,000
Transportation of things.....	230,000	219,000	215,000	-4,000

Budget Authority by Object (cont'd)

	1986 Approp.	1986 Available After Sequestering	1987 Estimate	Increase or Decrease
Rent, communications and utilities:				
Rental payments to GSA.....	$4,164,000	$3,918,000	$4,188,000	+$270,000
Communications, utilities, and miscellaneous charges	2,074,000	1,945,000	1,920,000	-25,000
Printing and reproduction....	317,000	297,000	290,000	-7,000
Other Services...............	3,150,000[1]	3,019,000[2]	2,094,000	-925,000
Consultant Services........	2,765,000	2,326,000	2,700,000	+374,000
Supplies and materials.......	345,000	329,000	327,000	-2,000
Equipment....................	1,659,000	1,457,000	1,305,000	-152,000
Subtotal Obligational Authority..................	72,219,000	68,838,000	69,716,000	+878,000
Less: Trust fund transfers..................	-30,000,000	-28,710,000	-40,000,000	-11,290,000
Budget Authority	42,219,000	40,128,000	29,716,000	-10,412,000

[1] Includes one-time renovation costs of $1,350,000 for FY 1986.

[2] Includes one-time renovation costs for FY 1986 (reduced to $1,287,900 after sequestering.)

Authorizing Legislation

	1986 Amount Authorized	1986 Available After Sequestering	1987 Amount Authorized	1987 Budget Request
Office of Inspector General:				
P.L. 94-505.....	Indefinite	40,404,000[1/]	Indefinite	29,716,000

1/ Includes $276,000 for Section 515 withholding. This amount should be deducted from the amount available after sequestering, bringing the actual amount to $40,128,000.

Office of Inspector General

	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
FY 1978:				
Appropriation	$27,283,000	$28,743,000	$28,743,000	$28,743,000
Trust Fund Transfers	4,290,000	4,290,000	4,290,000	4,290,000
FY 1979:				
Appropriation	45,092,000	45,092,000	45,092,000	45,092,000
Trust Fund Transfers	4,705,000	4.705,000	4,705,000	4,705,000
FY 1980:				
Appropriation	73,628,000	71,495,000	71,495,000	71,495,000
Trust Fund Transfers	4,194,000	4,194,000	4,194,000	4,194,000
FY 1981:				
Appropriation	74,202,000	69,190,000	69,190,000	55,578,000
Trust Fund Transfers	6,000,000	6,000,000	6,000,000	6,000,000
FY 1982:				
Appropriation	78,809,000	78,809,000	68,294,000	68,911,000
Trust Fund Transfers	5,760,000	5,760,000	5,760,000	5,760,000
FY 1983:				
Appropriation	82,240,000	81,267,000	81,267,000	81,267,000
Trust Fund Transfers	6,000,000	6,000,000	6,000,000	6,000,000
FY 1984:				
Appropriation	98,263,000	97,237,000	97,163,000	97,163,000
Trust Fund Transfers	6,000,000	6,000,000	6,000,000	6,000,000
Pay Transfers	1,474,000	1,474,000	1,474,000	1,474,000
FY 1985:				
Appropriation	58,491,000	53,391,000	58,491,000	53,391,000
Trust Fund Transfers	20,000,000	20,000,000	20,000,000	20,000,000
FY 1986:				
Appropriation	40,143,000	42,219,000	42,219,000	42,219,000
Trust Fund Transfers	30,000,000	30,000,000	30,000,000	30,000,000
FY 1986 Sequester:				
Appropriation	40,404,000			
Trust Fund Transfers	28,710,000			
FY 1987:				
Appropriation	29,716,000			
Trust Fund Transfers	40,000,000			

GENERAL STATEMENT

The Office of Inspector General (OIG) was established when Congress enacted legislation in 1976 (Public Law 94-505). The basic mission of the OIG is to reduce the incidence of fraud, abuse, waste, and inefficiency in the Department of Health and Human Services (DHHS). To do this, the OIG concentrates its resources on the areas of greatest vulnerability and highest possible return. This responsibility extends over a Department which represents more than one-third of the entire Federal budget, and whose budget is the third largest in the world, surpassed only by the overall United States Federal budget and by the total budget of the Soviet Union.

The Inspector General has a statutory mandate to keep the Secretary and Congress fully informed about problems and deficiencies in the administration of programs and operations and proposed remedies. The OIG accomplishes its mission by:

o Conducting audits, investigations, inspections, and program reviews of DHHS programs and operations;

o Coordinating efforts of the Department's operating divisions to detect and eliminate fraud, program abuse, and management inefficiencies;

o Developing, maintaining, and coordinating working relationships between OIG and other organizations at Federal, State, and local levels; and

o Coordinating efforts and working relationships with other Inspectors General through the President's Council on Integrity and Efficiency (PCIE).

The FY 1987 budget proposes $69,716,000 in total obligational authority of which $29,716,000 is requested in FY 87 budget authority, and $40,000,000 is proposed for transfer from the Social Security and Medicare trust funds. The $69,716,000 total request represents an $878,000 increase above the enacted (post-sequester) level proposed for FY 1986.

This budget proposes an increase of $10 million in reimbursements from the Social Security and Medicare trust funds to more accurately reflect OIG work dedicated to programs financed by these trust funds. Since 1981, the number of OIG staff devoted to review of the Social Security and Medicare programs has increased substantially, including the transfer to the OIG budget in 1983 of "Program Integrity" resources formerly included in the budgets of the Social Security Administration and the Health Care Financing Administration. This $10 million increase in trust fund reimbursement provides the Congress a more accurate representation of the amount of work performed by OIG in the trust fund programs.

In FY 1987, the OIG will continue to direct its resources toward increased review of programs (Social Security, Medicare/Medicaid) which spend approximately 95 percent of the Department's total resources. The sheer magnitude of these programs makes them susceptible to fraud, waste and abuse. The Inspector General will continue to focus resources on only the highest priority initiatives consistent with the OIG mission.

PROGRAM ACCOMPLISHMENTS

OIG efforts to control and reduce fraud, abuse, and waste resulted in $4.9 billion savings for FY 1985 (31 percent increase over FY 1984). OIG successful prosecutions increased to 1,005 in FY 1985 (12 percent increase over FY 1984). Administrative debarments, sanctions, and exclusions increased to 390 in FY 1985 (19 percent increase over FY 1984). Decreases are expected for FY 1986 and FY 1987 in proportion to staffing and resource reductions. These accomplishments and estimated achievements for FY 1986 and FY 1987 are shown in the following table:

OIG PROGRAM IMPACT DATA
($ Millions)

	FY 83 actual	FY 84 actual	FY 85 actual	FY 86 after sequester	FY 87 estimate
Savings, Recoveries, Fines Penalties, Restitution, etc.	$1,400	$3,750	$4,925	$4,900	$4,900
Successful Judicial Prosecutions................	808	900	1,005	1,000	1,000
Successful Administrative Debarments, Sanctions, and Exclusions..................	230	327	390	390	390

Executive Management

1986 Appropriation		1986 Available After Sequester		1987 Estimate		Increase or Decrease	
FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority
33	$ 1,634,000	29	$ 1,586,000	28	$ 1,507,000	-1	-$ 79,000

Purpose and Method of Operation - Executive Management includes the Immediate Office of the Inspector General, the Deputy Inspector General, and a central support staff. The Inspector General directs a comprehensive program of audits, investigations, inspections and analyses by providing overall policy and guidance for eliminating fraud, abuse, and waste in the Department's programs and operations.

Executive Management directs administrative operations for the OIG. In addition, the Inspector General provides policy and guidance to all OIG operating components. The Immediate Office of the Inspector General informs the Secretary and Congress of problems and deficiencies in Departmental programs, recommends regulatory or legislative remedies, and responds to congressional and public inquiries.

During FY 1985, Executive Management provided staff services to the entire Office of Inspector General and was responsible for maintaining the continuity of day-to-day operations. Executive Management will continue to provide these services in FY 1986 and FY 1987.

Rationale for the FY 1987 Budget Request - The Executive Management request for 28 positions and $1,507,000 would represent a decrease of one FTE and a decrease of $79,000 below the FY 1986 amount available after sequestering. The budget request for FY 1987 maintains a current services level for the Executive Management function.

Program Operations

1986 Appropriation		1986 Available After Sequester		1987 Estimate		Increase or Decrease	
FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority
1,247	$70,585,000	1,204	$67,252,000	1,186	$68,209,000	-18	+$957,000

Purpose and Method of Operation - "Program Operations" is comprised of the Offices of Audit, Analysis and Inspections, and Investigations. Program Operations' mission is to reduce the incidence of fraud, abuse, and waste and to promote efficiency and economy throughout the Department.

The Office of Audit (Audit) develops and maintains a comprehensive audit program for the Department's Operating and Staff Divisions. Its objectives include:

- o Promoting economy and efficiency in the Department's programs by increasing the number of: (1) audit recommendations which result in savings through more efficient and effective operation, and (2) findings of unallowable expenditures which lead to monetary recoveries for HHS programs;
- o Reducing the vulnerability of programs and computerized systems by ensuring the presence of all necessary internal controls pursuant to the Financial Integrity Act of 1981, and OMB Circulars A-123 and A-71; and
- o Improving the quality of audit management by both Federal and nonfederal auditors of HHS programs through: (1) better conformance to established audit standards, (2) better use of computerized audits and advanced statistical sampling methodologies, (3) more timely completion of audit reports, and (4) more efficient and effective use of contract auditors.

Sustained focus on high payout activities within the Social Security and Health Care Financing programs provides the greatest potential savings for the Department. OIG has also allocated substantial staff effort to internal controls in response to OMB's call for Federal agencies to significantly increase audit scrutiny of internal operations.

During FY 1985 OIG reviews identified a number of program areas where significant savings were possible with tightened program administration, legislative reform or regulatory change.

Following are highlights of several of these reviews.

- o Diagnosis Related Groups (DRG) Cost Base. OIG pointed out that capital and medical education costs are improperly included in the cost base for the current DRG rates. Excluding these charges could prevent annual overcharges to the Medicare program of $770 million ($720 million capital and $50 million medical education).
- o Indirect Research Costs. OIG identified opportunities to contain indirect costs of federally sponsored research--and thus make available $315 million annually for support of thousands of research projects approved on technical merit but unfunded because of budgetary constraints.
- o Buy-In Program. OIG estimated that limiting Medicaid payments for Medicare Part B deductible and coinsurance (Buy-In Program) to the Medicaid fee schedule could result in annual Federal and State Medicaid savings totaling $220 million.
- o Shared Living Arrangements. OIG pointed out that requiring SSI recipients' income be considered when determining a family's AFDC grant would eliminate the "favored treatment" now being given joint SSI/AFDC households and could result in Federal savings of $73 million annually.

Planned Office of Audit FY 1986 and FY 1987 Program Initiatives:

In the health care financing area, significant audit resources will be devoted to Medicare/Medicaid programs in order to identify ways to contain health costs—particularly in the area of reimbursement for hospital physician services.

With respect to Medicare, in the area of hospital cost containment, Audit will continue to assess implementation of the Medicare Prospective Payment System (PPS) which reimburses acute care hospitals on prospectively set DRG rates. For FY 1987, these DRG rates will be based for the first time on a 100 percent federally set rate, completing a 3-year phase-in of such rates based on a blend of hospital specific and nationally set rate segments.

Under Medicaid, Audit will identify innovative techniques used by the States for hospital cost containment such as outpatient versus inpatient surgery. These techniques will be used as models in other Medicaid States.

In the area of physician cost containment, Audit will study significant physician reimbursement issues such as: fees charged by primary surgeons, fee schedule versus reasonable charges, reasonable charge increases after the freeze on physician fees has been lifted, improper billing by doctors with phony credentials and suspended/revoked licenses.

Audit will continue to use specially designed computer applications and screens to test payment systems and controls. These tests detect system weaknesses and probe for possible recipient and provider fraud.

In the social security area, Audit will continue to work to improve management and fiscal controls over benefit payments, administrative costs, and asset management of the trust funds. In addition, Audit will assess the potential for additional savings within SSA programs and will evaluate the manner in which SSA has implemented recently enacted laws.

In Grants and Internal Systems, Audit will increase the continuing assessments of internal controls while performing management and efficiency audits of departmental operations. These audits will provide information that will identify opportunities for management to make departmental programs more efficient and cost effective. Audit will also carry out special initiatives designed to pinpoint specific vulnerabilities and to develop innovative approaches for programs or persistent problems. Consistent with OMB circulars A-128 and A-110, Audit will increase the continuing oversight and technical analysis of all nonfederal audit reports received of single audits on an entity-wide basis.

Audit will also continue the expansion of the OIG role in auditing departmental EDP activities, focusing attention on a continuing evaluation of SSA's modernization plans and on internal controls within the department's computerized systems.

The Office of Analysis and Inspections (OAI) was created in FY 1985 in order to combine all inspection activities performed in the OIG into one major component. Complementing the more traditional OIG audit and investigative activities, OAI is responsible for the identification and prevention of generic causes of fraud, abuse and waste in DHHS programs. Through the conduct of program evaluations and special management analyses, OAI identifies, resolves, and recommends corrective action for abuses and inefficiencies and develops legislative, regulatory and policy improvements.

In FY 1985, its initial year of operation, the inspection effort yielded savings of $2.1 billion. Below are representative accomplishments for FY 1985.

- Congress enacted an OIG-proposed legislative change making Medicare benefits secondary to benefits available to beneficiaries with working spouses under age 65. The Congressional Budget Office estimates that this will result in $2.1 billion in Medicare savings over the 5-year budget cycle.

- Based on specific inspection findings, Congress incorporated in the Deficit Reduction Act an OAI recommendation to require a front-end income eligibility verification system for potential program beneficiaries. Savings of $1 billion are projected over a 5-year period.

- OAI completed a national assessment of Medicare's cataract surgery payments which revealed that Medicare pays over $500 million annually in unnecessary costs.

- OAI conducted in-depth reviews of three DRGs which identified substantial vulnerabilities in coding. The findings identified overpayments in excess of $20 million.
- An inspection revealed that the cumbersome nature and absence of controls to prevent errors in the manual system used by SSA for processing Stop Payment forms to Treasury resulted in erroneous payments of $24 million from 1978 through 1983 and a continuing loss of $4.5 million annually. Based on OAI recommendations, an automated system is being developed and action taken to recover the overpayments and prevent future losses.
- An inspection identified that approximately 75 percent of all Head Start grantees routinely draw unemployment compensation during the summer for an annual cost of $21.6 million annually. Based on these findings DHHS and the Department of Labor are working together to eliminate this loophole.

Planned OAI initiatives for FY 1986 and FY 1987 include:

- Expanded evaluations of Medicare Prospective Payment System (PPS) abuses through improper coding of medical records, underutilization of services, unnecessary admissions, readmissions, inappropriate transfer and inappropriate discharges.
- An assessment of the Health Maintenance Organization (HMO) program to identify vulnerabilities for Medicare payments.
- A national DRG Validation study.
- An examination of the incidence and effect of incorrect Social Security Numbers in the Aid to Families with Dependent Children (AFDC) program.
- An assessment of the extent to which current DHHS employees in critical sensitive positions have criminal records which bring their suitability into question.

The Office of Investigations (OI) is responsible for developing the necessary evidence for cases which have prosecutorial merit, and for pursuing civil actions and administrative actions to recover money in cases involving fraud, misuse of resources, and violation of terms or conditions of funding. In FY 1981, 39 health providers were sanctioned for engaging in abuse of patients and programs. By FY 1985, this number had risen to 390, a ten fold increase which will be exceeded in FY 1986. In FY 1981, OI achieved 165 prosecutions, and by FY 1985, prosecutions have risen to 1,005, an increase of over 600 percent. OI expects to exceed this level in FY 1986 in spite of resource constraints. OI's objectives include:

- Preventing fraud and abuse by increasing identification of program weaknesses and making recommendations for systemic corrections which would eliminate opportunities for abuses in departmental programs;
- Improving the deterrence of fraud and abuse through successful criminal, civil and administrative prosecutions of individuals and organizations that violate the laws and "kicking out" health providers abusing our beneficiaries and programs; and

- Promoting economy and efficiency in the Department's programs by increasing dollar recoveries through judicial and administrative proceedings.

OI's primary focus is on fraud and abuse in Social Security and Medicare/ Medicaid programs, which constitute 95 percent of the Department's expenditures. OI places major emphasis on the use of computer applications to uncover fraud and abuse.

OI issues Management Implication Reports (MIRs) which identify system vulnerabilities in HHS administrative operations, legislation, and regulations. The problem is identified during the course of investigation. OI then refers the problem to the Office of Analysis and Inspections (OAI) for an in-depth analysis. OAI's review may result in recommendations which are forwarded to the Department's Operating Divisions for corrective action.

OI uses a slightly different procedure in the Fraud Alert system. Fraud Alerts are one-page fliers periodically sent to health care carriers and intermediaries. Each Fraud Alert identifies a particular area of vulnerability and recommends specific actions that the carriers and intermediaries could take to prevent potential fraud.

Under the Civil Monetary Penalties Law (CMPL), OI also manages the recovery of dollars lost to health care providers because of fraud and abuse. During FY 1984, the first full year of CMPL operation, OIG assessed penalties of $8.2 million. This figure increased to $9.7 million in FY 1985. CMPL staff actively work with other Federal, State, and local law enforcement authorities, assisting in investigations and exchanging data, with a view toward eliminating program loopholes and prosecuting fraud.

Highlights of OI's FY 1985 accomplishments are:

- Through redirection of effort to high payback areas, OI obtained 1,005 successful prosecutions, a 12 percent increase over the FY 1984 level of 808;
- OI obtained total monetary results from fines, restitutions, recoveries, settlements, and savings of $57.2 million, an increase of 25 percent over the FY 1984 level of $45.9 million;
- OI sanctioned 390 health providers engaged in abusive practices and obtained 70 administrative settlements with penalties amounting to $9.7 million;
- Consistent oversight and training efforts with the Medicaid Fraud Control Units resulted in about 400 convictions.

OI's FY 1986 and FY 1987 planned initiative:

- o Estimate that at least 1,000 successful prosecutions will be accomplished in FY 1987 in spite of cutbacks in funds and anticipate monetary results to amount to $44 million.

Rationale for the FY 1987 Budget Request - The Program Operations request for 1,186 FTEs and $68,209,000 is a $2,376,000 decrease below the FY 1986 pre-sequestration estimate and only a $957,000 increase over the current FY 1986 estimate. This decrease includes reductions in areas such as non-recurring contracts, equipment repairs, work orders, and rental payments to GSA. These decreases will be made possible through greater management efficiency and eliminating unnecessary expenses.

The following are highlights of budget changes from the FY 1986 amounts available after sequestration:

- o -$297,000—decrease in rental costs associated with office space due to space consolidation;
- o -$925,000—decrease in costs associated with work orders to conform to the GSA reduction of square foot usage;
- o -$497,000—decrease in salaries and fringe benefits due to staff reductions;
- o -$213,000—decrease in travel, communications, printing, supplies and equipment due to staff reductions;
- o +$1,869,000—increase in personnel costs to cover promotions, bonuses, within-grade increases, and employee benefits.
- o +$374,000—increase in contract services in anticipation of decreased staffing levels necessitating more work being contracted out;
- o +$567,000—increase in square footage rates for space rental to GSA.

Detail of Permanent Positions

	1985 Actual	1986 after Sequester	1987 Estimate
Executive level IV............	1	1	1
Subtotal....................	1	1	1
ES-5........................	-	2	2
ES-4........................	3	3	3
ES-3........................	4	2	2
ES-2........................	4	4	4
Subtotal....................	11	11	11
GS/GM 15....................	54	50	47
14..........................	150	141	135
13..........................	314	310	304
GS 12.......................	411	369	360
11..........................	94	94	94
10..........................	1	1	1
9...........................	90	85	85
8...........................	12	11	11
7...........................	53	51	51
6...........................	52	47	47
5...........................	79	79	77
4...........................	38	34	34
3...........................	8	8	8
2...........................	3	3	3
Subtotal....................	1,359	1,283	1,257
Grades established by Act of July 1, 1984 (42 USC 207) Commissioned Corps..........	7	7	6
Subtotal....................	7	7	6
Total permanent positions...................	1,378	1,302	1,275
Less Unfilled positions, end-of-year.................	- 71	- 72	- 65
Total permanent employment, end-of-year.....................	1,307	1,230	1,210

Office of Inspector General

Estimates for Contract and Related Services

Program Activity	Type 1/	Source of Funds 2/	Obligations ($000) FY 85 Act.	FY 86 Appr.	FY 86 Seques.	FY 87 Est.
Contractual Services	C	A	2,950	2,750	2,326	2,700
Personnel Appointments	P	A	20	15	0	0
Total, contract services			$2,970	$2,765	2,326	2,700

1/ C for contract services, P for personnel appointments

2/ A for appropriated funds

In FY 1987, the Office of Inspector General plans to use $2,700,000 for contract audits, investigations, and inspections. This represents a $65,000 decrease from the FY 1986 level prior to sequestration and Section 515 withholding. This decrease is possible through more efficient use of contract auditors and through the completion of some investigative projects.

These contract services are used as a means for maximizing workloads and should not be construed as consultants. For example, OIG develops and tests audit guides for various routine audits. These types of audits are then contracted-out to certified public accounting firms. Contracting-out for these services allows the Office of Audit the flexibility of expanding the coverage of the annual audit program while continuing to use in-house staff to support ongoing and new initiatives targeted against program misuse and management inefficiency. Similar contract efforts are planned for the Office of Analysis and Inspections.

FRIDAY, APRIL 18, 1986.

POLICY RESEARCH

WITNESSES

ROBERT B. HELMS, PH.D., ACTING ASSISTANT SECRETARY FOR PLANNING AND EVALUATION

DENNIS P. WILLIAMS, ACTING DEPUTY ASSISTANT SECRETARY FOR BUDGET

JOHN T. HOPKINS, OFFICE OF THE SECRETARY BUDGET SERVICES

Mr. NATCHER. We take up next Policy Research, and we have Dr. Robert Helms.

Before you proceed with your statement, tell us who you have with you at the table there.

Mr. HELMS. I have with me Dennis Williams and John Hopkins from the Office of Budget.

[The statement of Mr. Helms follows:]

I am pleased to be here today to present the fiscal year 1987 budget request for the Policy Research appropriation administered by the Office of the Assistant Secretary for Planning and Evaluation. Policy research provides information for the Congress, the Department, other Federal agencies, states and others on current human resource policies and programs and on the effects of proposed policy changes.

The requested funding of $5 million will support research in health, income security and employment, and human services policy. It is $1 million less than the fiscal year 1986 level. This reduction reflects the end of funding for the Health Insurance Experiment.

Goals and Strategy of the Policy Research Program

As you are well aware, the Department of Health and Human Services is responsible for administering many programs to help meet the Nation's basic health, social service and welfare needs. The Policy Research program is designed to improve our understanding of issues affecting those programs and the problems they are meant to alleviate. It enhances our ability to develop effective policies.

Our research complements the research conducted by HHS's Operating Divisions by focussing on policy issues that cut across organizational and subject lines. It also provides the Secretary with the flexibility to conduct short-term analyses on rapidly arising emerging issues of high priority to the Department.

The broad nature of this program allows us to examine major public policy concerns, such as controlling health care costs, ensuring adequate insurance coverage, reducing long-term welfare dependency, and increasing involvement of the family and the private sector in the delivery of long-term care and other social services.

In recent years we have shifted the focus of the program from large-scale, multi-year experiments (such as the Health Insurance Experiment) to short-term studies. As a result, we are able to respond more quickly to critical information needs of the Secretary, as well as other key decision makers in the Executive and Legislative branches.

I would like to describe briefly key aspects of our proposed research program in three policy areas:

Health, Income Security and Employment, and Social Services.

Health Policy Research

Our health policy research will focus on issues associated with improving health care in the nation. Of particular interest are our efforts to enhance the competitive aspects of health care delivery and to fill gaps in coverage for both the underinsured and the uninsured.

By 1987, the prospective payment system for Hospitals will have been in place long enough to allow us to examine its effect on the financing and delivery of health services, in particular its impact on physician practice. Our intention is to look at whether the system has changed the patterns of inpatient or ambulatory services provided by physicians. For example, we would like to know to what extent it has increased use of less costly outpatient care.

Another important issue we are examining is how physicians organize for practice and how trends away from hospital practice and toward participation in clinics and health maintenance organizations affect health costs and options for health systems reform. We are also conducting several studies which will examine private sector health benefits for employees and current approaches to treating and paying for uninsured populations.

Taken together, these studies will help us to understand the dynamic change underway in the nation's health care system. We are also hopeful that the research results will provide important insights into ways Medicare may move beyond prospective payment, by purchasing health care competitively for the aged and disabled.

Our preparation of public use data files for the Health Insurance Experiment will be concluded this year. We expect to use the data in 1987 for analysis of a variety of issues related to health financing and tax initiatives. In particular, this information will be useful in examining the effects on patient behavior and health care costs of alternative means of providing coverage for catastrophic illnesses. I expect that this and related research will contribute significantly to Secretary Bowen's response to the President's directive to examine coverage of catastrophic illness.

Income Security and Employment Policy

In the area of income security and employment, we are focusing on two major objectives. First, we continue to seek ways to promote the transition of welfare recipients to self-sufficiency. Second, we are looking at ways to enhance the role of private savings, insurance, and pensions in providing income to the elderly.

Our efforts directed to promoting the self-sufficiency of welfare recipients focus on increasing private sector employment and child support payments, thereby reducing dependency on public sector programs. This year, we will complete a study of the policy implications of the new AFDC work programs in San Diego, California, Baltimore, Maryland and Arkansas. In all, programs in eleven states will be reviewed. Also, we recently reviewed previous demonstrations and are using this to develop a synthesis of research on long-term welfare dependency and ways to reduce it.

In a joint effort with the Office of Family Assistance, we are beginning a five-year, two-state demonstration to improve the self-sufficiency of teenage mothers with children. The demonstrations are directed toward encouraging these young mothers to complete school, engage in training, seek employment or take other steps toward self sufficiency. In a related effort, we are continuing our investigation of the causes and correlates of inner city poverty and the growth of teenage motherhood.

These and other efforts will contribute materially to our assessment of welfare programs and to the Domestic Policy Council's review of the welfare system.

As a part of our Retirement Policy Studies, we will complete projects that are providing new information on savings behavior, pension entitlements, participation in federal programs, poverty and institutional care. We will continue a study on the economic status of the elderly and will begin a study of disability trends that will enable us to project the size and changing composition of the expanding population of disabled persons and to assess recent reforms in disability programs.

Social Services Policy

Our research on Social Services policy will focus on assessments in two areas: 1) community-based alternatives to institutionalization for the elderly and disabled; and 2) policies which promote family stability.

This year we will complete our evaluation of the National Long Term Care Channeling Demonstration, a ten-state experiment to examine the cost-effectiveness of community-based, long-term care. Findings to date indicate that the increased availability of case management and formal community services did not reduce the use of hospitals or nursing homes. It did, however, reduce the level of unmet need for care among the elderly, increase their satisfaction with service arrangements and quality of life, and improve the well-being of informal care givers. A final report will be available in May of this year. A study of state approaches to managing long-term care service will also be completed this year. This study documents a variety of state efforts to strengthen community services, while controlling public expenditures.

Our efforts in this area also include an assessment of the impact of the prospective payment system on long-term care. This includes examining its effect on the post-discharge needs and services for individuals with chronic impairments, as well as, the effects on the quality of in-patient and post-hospital care for patients with chronic illnesses.

Our Family Policy research will explore factors in family formation and breakdown, and ways to enhance family support. We will continue our work on foster care and adoption and on an increasing family involvement of teenage fathers. One of Secretary Bowen's priorities is the reduction of adolescent pregnancy. These efforts, along with the project I mentioned earlier on teenage motherhood, will be very helpful in working towards achievement of this important goal.

Conclusion

The Policy Research program is a modest investment. Yet, it provides a ready means to target research on current policy concerns and emerging trends. To a large extent, our program focusses on policies that affect society's most vulnerable people--the poor, the elderly, children, families in crisis and the disabled. Over 50 percent of our project funds support research related to poverty.

In fiscal year 1987, our program can continue to make significant contributions to informing decision-makers on a wide variety of fast changing, difficult and important social policy issues.

Mr. NATCHER. Mr. Obey, I yield to you.

MULTIREGIONAL POLICY IMPACT SIMULATION MODEL

Mr. OBEY. I want to ask you a number of questions about the multiregional policy impact simulation model at Boston College.

I understand that that operation will be funded as this subcommittee intended in the fiscal year 1986 budget. Is that understanding correct?

Mr. HELMS. Yes, it will be funded as the Subcommittee intended. I proceeded this week to get the paperwork going on that. Because of the Gramm-Rudman-Hollings uniform reduction of 4.3 percent. It will funded at $478,000.

POVERTY STUDIES

Mr. OBEY. I am glad to hear that. Your budget justification indicates you plan to spend $1,100,000 on poverty studies in 1987, down from $1,750,000.

The Institute for Research on Poverty was provided $1,750,000 for two years' work in 1985. Does the $1,100,000 mean you are reducing your support of poverty-related research work?

Mr. HELMS. No, we don't think so. The President has asked the Domestic Policy Council to look into a number of welfare reform issues, and we think our research is going to play a vital role in that.

While there is some reduction in funding, we will continue with the important policy research in this area, and we think we can get the work done for the reduced amount.

INSTITUTE FOR RESEARCH ON POVERTY

Mr. OBEY. I have a little difficulty understanding that response, because of the tremendous reduction we have had in policy research budgets generally. In fiscal year 1976, it was funded at $29,000,000. By fiscal year 1985, it was down to less than a quarter of the investment made 10 years ago.

There are a good many questions being raised from many people about the incidence of poverty, how it has changed over the years. I don't see how we answer those questions with fewer resources.

How will you fund the poverty studies? In the past, this has been done at the Institute for Research on Poverty. Will you continue to fund it?

Mr. HELMS. Not by our choice. We have asked for several years that we not be required to fund it from the Institute for Research on Poverty.

We have, I would say, a good record and a lot of research. We think at the time that funding dedicated to the Institute was started, they had a concentrated staff. However, there is a lot of research capacity elsewhere now. As a result, we would prefer to go out and request competitive bids for poverty projects, and let a number of other universities also compete for this money.

Believe me, I have tried my best, given that we were required to give funding to the Institute, to work with them, to make sure we get useful studies, but we still would prefer that we be able to compete this on a wider basis, and let some other university scholars share in this funding. However, we would expect, given the institute's expertise, their record and so on, that they would still be able to compete on a very strong basis.

They have a lot of capacity for doing the kinds of studies we need.

Mr. OBEY. The National Academy of Sciences several years ago made a number of points in relation to this. They said that the core grant that goes to the Institute permits us to have in one place a substantial number of people working on related projects.

And they pointed out that the core grant facilitates the maintenance of cumulative lines of research, that many individual projects can then build upon. I am in the business, as the chairman of the Joint Economic Committee, of trying to evaluate what is happening to the data base in this country, in terms of virtually every economic question we have to deal with, and from that vantage point I see a slow squeezing of that entire national data base as a result of less and less resources being applied to it.

It seems to me, given the fact that the data base which that Institute has is unique, and is in greater depth than that possessed by anybody else in the country, and was good enough for President Nixon to use in order to build his key judgments on how to create a program to attack poverty, it is of dubious values to weaken the funding link with that facility.

I supported the Nixon proposal which is the last really sweeping effort to attack welfare anomalies in this country.

I would like to put in the record, Mr. Chairman, a letter from Mr. Charles Murray, who does not happen to share my philosophical views, obviously, but I would like to read what he says about the IRP:

[The information follows:]

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Charles A. Murray
Fellow

23 March 1986

Prof. Sheldon Danziger
Director
Institute for Research on Poverty
1180 Observatory Drive
3412 Social Science Building
Madison, WI 53706

Dear Sheldon:

I am happy to state here, and in any other context, that I hope the IRP is sustained in the coming budget fights. The only way I was able to write Losing Ground was by using data and analyses from sources such as the IRP, including the IRP specifically. I should add, as I did in the Preface to Losing Ground, that you were as forthcoming as I could have wished in providing me with help.

I think we agree that in the past the IRP has had problems in ensuring intellectual balance among its staff. This is in part because there have until recently been relatively few conservatives in the academic marketplace (and they still constitute a small minority). I have no doubt about your own commitment to an IRP that represents the spectrum of intellectual perspectives.

I personally should like to see the IRP serve less as a producer of analyses and to concentrate its resources on serving as a forum (as it does, for example, by producing Journal of Human Resources), and facilitating use of data bases such as the CPS, NLS, and PSID that are hard for most of us to get to. Recent developments in the technology of personal computers open up all sorts of possibilities that were unthought of a few years ago and that government bureaus such as Census cannot be expected to fill. The IRP is ideally suited to take a leading role. The contribution such activities could make both to scholarship and to some very practical issues in public policy is incalculable.

Best of luck and warm personal regards,

Sincerely,

Charles Murray

Charles Murray

Mr. **Obey**. He says:

> I am happy to state here and in any other context that I hope the IRP is sustained in the coming budget fights. The only way I was able to write "Losing Ground" was by using data and analysis from sources such as the IRP, including them specifically.
>
> You were as forthcoming as I could have wished in providing me with help, I should have added in the beginning.

Mr. Chairman, I would strongly hope that support for this Institute, as well as that at Boston College, can be continued because of the key and unique role which they played in developing the key data base for the country.

I thank you and appreciate your taking my questions out of order.

Mr. **Natcher**. Mr. Conte, I yield to you.

GRAMM-RUDMAN-HOLLINGS SEQUESTRATION

Mr. **Conte**. Mr. Helms, how was the 4.3 Gramm-Rudman cut applied in your office? Was it applied evenly between all the studies you have got going?

Mr. **Helms**. It was applied across-the-board.

Mr. **Conte**. Did you have to ask for some money back from some of the contractors?

Mr. **Helms**. No. We try to plan ahead and keep some money for contingency purposes. It was early enough in the year that we could anticipate the cut. We told our various grantees they would have a little bit less, and they should plan for that.

CONSULTANT SERVICES

Mr. **Conte**. How many ongoing research studies do you have at the present time?

Mr. **Helms**. We have 52 of them.

Mr. **Conte**. Are any being done in-house or are they all contracted out?

Mr. **Helms**. It is primarily out in grants and contracts. There is a also good bit of research going on in-house, which we support partially from the Policy Research appropriation but mostly from the General Departmental Management account.

Mr. **Conte**. How are you exempt from section 515 consultant cuts?

Mr. **Helms**. As I understand it, since a lot of the projects that we do are grants, they are not subject to the cuts in consultant services.

Mr. **Conte**. I see.

Mr. **Helms**. We have taken cuts in contracts and consultants services, however.

FOLLOW-UP REPORT ON ALZHEIMER'S DISEASE

Mr. **Conte**. In last year's report, I asked the Secretary's Task Force on Alzheimer's disease to provide a follow-up report to the one done in 1984, paying particular attention to how this disease is currently being financed, and reporting on any innovative methods going on around the country.

There seems to have been a lot of confusion in the Department about who would conduct the study, but I specifically stated in our report that this should be done by the Task Force. I believe I cleared this matter up with the Secretary when he was up here last month, but I wanted to check with you.

Can I be assured now that that report will be done by the special task force and not by any other office? If not, I am going to have to take this up with the Secretary again.

Mr. HELMS. Yes, and I have before me a draft letter from Donald McDonald, Acting Assistant Secretary for Health, and Chairman of the Task Force, which I think will be submitted very soon to the House Appropriations Committee. It states that the task force has prepared the report and will be submitting in the near future it.

Mr. CONTE. Task force has completed the report?

Mr. HELMS. Yes, sir.

Mr. CONTE. Good.

PROSPECTIVE PAYMENT SYSTEM

Mr. Helms, your written statement says that in 1987, the Prospective Payment System will have been in place long enough for you to initiate some good studies of it.

What particular areas of that system concern you, and how would you go about studying it?

Mr. HELMS. There are a number of concerns that have been raised, particularly concerning the quality of care. We are trying to devote some effort to studying the effects of prospective payment and the incentives it has.

We are also trying to look at the long-term care question—is there any impact? There is a lot of concern about early discharges from hospitals, and I know that HCFA has testified about this.

There is very little hard evidence about this issue. We are going to try to initiate some projects in the next year that deal with what happens to people when they get out of the hospital, whether they go into long-term care facilities, how long they stay in those facilities and whether they go back into the hospital.

MEDICAL MALPRACTICE

Mr. CONTE. Mr. Helms, another issue of growing concern is the area of medical malpractice. What research are you doing in this area?

Mr. HELMS. Yes, we are, but it is a difficult area to research. One of the Secretary's highest priorities is the medical malpractice problem. He has asked us to look at the issue. We are involved in an informal, internal task force to look at this along with the General Counsel's Office.

We have also met with a number of researchers and with the General Counsel's Office of the AMA about this research. We are trying to see what needed studies we could complete quickly.

We are also in negotiations to design longer-term studies which will attempt to measure the use of defensive medicine.

This is a difficult area to research. Various people have estimated the amount of excessive procedures used, but physicians, will defend their use of such procedures by claiming they must practice defensive medicine. It is difficult to quantify the use of defensive medicine.

We want to look and see if there is an effective way to quantify this issue.

Mr. **Conte**. You can expand on that question for the record, when you get back to your office. I think it is a real hot issue. We are seeing it happen in my District, a lot of top doctors are leaving.

Mr. **Helms**. Yes, this is of particular interest to Secretary Bowen.

POLICY RESEARCH BUDGET

Mr. **Conte**. Why, when the President has initiated several broad studies, one on the welfare system and one on catastrophic health care, why is your budget going down? Didn't he like what you were doing?

Mr. **Helms**. The total is going down partially because of budget constraints. We are trying to maintain the part addressing poverty issues at level funding.

The biggest reason the budget is going down for 1987 is that we will this year finish up the Rand health insurance experiment. It has been a big project since 1973, 14 years.

We are down to the final analysis stage of the study now. This year, 1986, it will cost $1,500,000. Most of the funding is going into the publication of numerous reports and the preparation of the public use tapes, which will allow scholars for years to come to get full access to all the data from this big study.

The end of the Rand study accounts for a lot of the Policy Research funding reduction. The studies on catastrophic illness expenses and welfare are going on this year and will be reported to the President in December. With such a short time it is difficult to conduct new research.

However, we are trying to do some quick research and we are working very hard on this.

Mr. **Conte**. Thank you, Mr. Chairman.

Mr. **Natcher**. Mr. Helms, we want to thank you and your associates for appearing before our committee at this time on behalf of your budget request for the fiscal year 1987.

[The following questions were submitted to be answered for the record:]

RESCISSION FUNDS

Mr. Natcher. Since Congress has not approved the proposed rescission of $220,000, when will the funds be obligated?

Dr. Helms. The funds for the proposed rescission were obligated May 2, 1986.

Mr. Natcher. The chart on page 109 of the justifications shows a fairly steady decline in the budget request for policy research since 1978. Does this indicate a phase-out of this appropriation?

Dr. Helms. We have no intention of phasing out this appropriation. The decline reflects a transition of the Policy Research program from larger social research experiments to smaller, policy-oriented short-term studies. For example, the difference between the FY 1987 request and the current year budget is $1.5 million, the amount of final year funding for the Health Insurance Experiment studies.

NEED FOR POLICY RESEARCH

Mr. Natcher. Why can't this program be phased out and let the operating agencies do research from existing funds?

Dr. Helms. There are two basic reasons: First, Policy Research is a unique program with an important and different focus from the research of the operating divisions which typically examine issues directly related to the programs they operate. It examines important broad cross-agency policy issues, and problems not relating directly to a particular HHS program. Health care reform, welfare dependency and long-term care are good examples of such issues.

Second, my job is to provide advice to the Secretary on policy matters, sometimes on matters in substantial dispute. It is vital for me and the Secretary to have independent and reliable data upon which to base judgements.

Mr. Natcher. Who decides the specific projects to be supported with policy research funds?

Dr. Helms. I do. My decisions are guided to a great extent by information needs defined by policy officials within the Department and the Administration, and members of the Congress. They also are based on recommendations of my key policy deputies and the recommendations of a technical panel which reviews all proposed projects.

Mr. Natcher. Has the new Secretary of Health and Human Services reviewed the Policy Research budget for 1987? How does he feel about it generally?

Dr. Helms. Yes, Secretary Bowen reviewed this request along with the rest of the Department's FY 1987 budget submission before the President's Budget was sent to the Congress. While I have not heard him talk explicity about this request, he has on a number of occasions reiterated his desire to maintain a strong policy analysis capability which requires up-to-date information pursued within the Policy Research program.

NEW PROJECTS

Mr. Natcher. How many projects in total, do you expect to fund during the current fiscal year? How many projects are planned for FY 1987?

Dr. Helms. During FY 1986 we will fund about 30 projects. In FY 1987, we anticipate funding approximately the same number.

Mr. Hoyer. How much of the $5 million requested for 1987 relates to new projects?

Dr. Helms. Approximately ($2.6 million of the project funds will be for new projects. This reflects the change in policy research I mentioned in my opening remarks--from long-term to short-term, rapid response projects.

Some of the **new projects** we plan are --

- o Update on employer-provided health insurance;
- o Impact of Medicare prospective payment on
  --physician practices
  --long-term care;
- o The impact of the increasing supply of physicians on their organization and practices;
- o The impact of alternative delivery systems;
- o Comparison of efficiency of inner city and suburban hospitals;
- o Medical malpractice study;
- o Workfare study follow-up;
- o Medical support implementation evaluation;

- Impact of immigration reform legislation;
- Disability patterns: implications for retirement and the demand for public services;
- Estimates of demand for substitute care;
- Alternative financing options for ICF/MR services; and
- Survey of post-acute and long-term care needs of chronically impaired patients;

UNCOMPENSATED CARE

Mr. Hoyer. According to your justification, your office did a study of uncompensated care which examined the issues of charity care and bad debt. What were the major findings of the study? Has any action been taken because of these findings?

Dr. Helms. This study has not yet been completed. It was originally scheduled to be finished in August 1986, but we have slipped that date a few months given staff work necessary to respond to the President's charge to this Department concerning catastrophic health care. We will provide a summary of the study results to the committee as soon as these are available.

PRIORITY

Mr. Hoyer. What research area will be a priority in FY 1987? How much will be spent in this area? What do you hope to learn?

Dr. Helms. There are two major priority areas in this request; incentives for competition in the health care system, and welfare dependency. Approximately $1.8 million will be spent in the first area, where we expect to learn more about the effect of the prospective payment system on the financing and delivery of health care, especially on physician practices, and more about competitive and incentive changes that are taking place in the private sector such as trends away from hospital practice in favor of clinics and health maintenance organizations, and the impact on health care costs.

We plan to spend approximately $1 million on the second area--welfare dependency and poverty, including an assessment of state demonstrations of employment and support services for young mothers with children, and a comprehensive synthesis of welfare dependency research findings.

HEALTH POLICY

Mr. Hoyer. In the area of Health Policy and specifically the prospective payment system, how does your research inter-relate with research done at the Prospective Payment Assessment Commission (PROPAC)?

Dr. Helms. Our research on the Medicare prospective payment system (PPS) is on certain highly specific topics of major policy concern, while PROPAC has a much broader range of responsibility. For example, its research examines operational issues concerning PPS, its impacts and effects. Our PPS research is in three principal but relatively narrow areas. The first area concerns the question of how to incorporate capital payments into the PPS rates. We recently sent a report to the Congress on this subject and have crafted a proposal which is included in the President's FY 1987 budget. The second area concerns the impact of PPS on quality of care, and on patient outcomes after inpatient hospital services are rendered. The third area concerns the impact of PPS on incentives in that system.

DUPLICATION OF RESEARCH

Mr. Hoyer. Many other offices within HHS conduct their own reviews and research. How much duplication is there? How much coordination of research is there with other offices in the Department?

Dr. Helms. There is little if any duplication of research. Duplication of research efforts is a continuing concern to me and my staff and we have developed several ways to avoid it. First, the focus of this program is different from those in the agencies. Policy Research examines broad policy issues that cross program or agency lines. Second, we exchange and compare annual research plans with the Operating Divisions. We also coordinate on specific projects. Finally, all our projects pass through a technical review panel which, among other things, ensures that a project addresses a policy issue of concern to the Office of the Secretary or the Congress, and why my office rather than an Operating Division should do the research.

WORKFARE

Mr. Hoyer. Has your office assisted in the development of the Administration's workfare legislation?

Dr. Helms. Yes. We jointly developed with the Office of Family Assistance (OFA) the Administration's legislation pending before the Congress as S1081 and HR. 2944 which would enhance state-administered work opportunity programs.

This legislation would provide a comprehensive and flexible approach to helping able-bodied welfare recipients regain economic self-sufficiency through work. States would be authorized to offer a choice of activities including job search, Community Work Experience Programs (CWEP or "workfare"), work supplementation, training under the Job Training Partnership Act and State tailor-made, employment-directed programs. The new work proposal is designed to facilitate State efforts to implement or continue to operate successful and innovative work activities for employable welfare recipients.

FAMILY SUPPORT ADMINISTRATION

Mr. Hoyer. Did your office participate in the plan to establish the Family Support Administration? Will you have any role in its operation when and if it's established?

Dr. Helms. Yes, my staff and I were involved in the deliberations and recommendations for establishing the Office. We assisted and continue to assist in the activities to establish the new organization.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

DEPARTMENTAL MANAGEMENT

Policy Research

FY 1987 Budget — Page

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DEPARTMENTAL MANAGEMENT

Policy Research

For carrying out, to the extent otherwise provided, research studies under section 1110 of the Social Security Act, [$6,500,000] *$5,000,000.*

DEPARTMENT OF HEALTH AND HUMAN SERVICES
DEPARTMENTAL MANAGEMENT
POLICY RESEARCH

Amounts Available for Obligation [1]

	1985 Actual	1986 Estimate	1987 Estimate
Appropriation. . .	$9,750,000	$6,500,000	$5,000,000
Sequester Order		280,000	
Proposed Rescission		220,000	
Unobligated balance lapsing	77,000	---	---
Total obligations	$9,673,000	$6,000,000	$5,000,000

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[1] Excludes the following amounts of reimbursements: FY 1985 - $500,000; FY 1986 - $500,000; FY 1987 - $500,000.

Summary of Changes

1986 Estimate	$6,500,000
1986 Sequester Order	-280,000
1986 Proposed Rescission	-220,000
Total Estimated Budget Authority	6,000,000
1987 Request	5,000,000
Net Change	-$1,000,000

	1986 Base		Change from Base	
	FTE	Amount	FTE	Amount
Decreases:				
Program:				
1. Reduction of 1 FTE based on employee attrition	6	$174,000	-1	-$30,000
2. Reductions in travel, printing, equipment and supplies		150,000		-18,000
3. Research contracts and other administrative costs..	---	3,637,000	---	-244,000
4. Decreases in project grants...	---	2,008,000	---	-708,000
Total decreases				1,000,000
Net change				-$1,000,000

Budget Authority by Activity

	1986 Appropriation		1986 After Sequestering		1986 Current Estimate		1987 Estimate	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Policy Research Total Obligations	6	$6,500,000	6	$6,220,000	6	$6,000,000	5	$5,000,000
Unobligated balance lapsing		—		—		—		—
Total budget authority	6	$6,500,000	6	$6,220,000	6	$6,000,000	5	$5,000,000

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Budget Authority by Object

	1986 Appro- priation	1986 Revised Estimate	1987 Estimate	Increase or Decrease
Total Number of Full-Time Positions. .	5	5	5	---
Full-time Equivalent of All Other Positions. .	2	1	1	---
Total Compensable Workyears.	6	6	5	-1
Average Salary, Grade Established by Head of Agency.	$33,500	$33,500	$33,500	---
Personnel Compensation:				
Full Time Permanent. .	149,000	149,000	119,000	30,000
OTFTP.	35,000	35,000	35,000	---
Other Personnel Comp.	---	---	---	---
Subtotal Personnel Comp. . . .	184,000	184,000	154,000	30,000
Personnel Benefits. . .	21,000	21,000	17,000	4,000
Travel & transportation of persons.	24,000	24,000	22,000	2,000
Transportation of things.	1,000	1,000	1,000	---
Rent, communications and utilities.	---	---	---	---
Printing and reproduction.	40,000	40,000	35,000	5,000
Other Services.	3,637,000	3,637,000	3,393,000	244,000
Supplies and materials.	35,000	35,000	33,000	2,000
Equipment.	50,000	50,000	45,000	5,000
Grants, subsidies and contributions.	2,508,000	2,008,000	1,300,000	708,000
Total budget authority by object.	$6,500,000	$6,000,000	$5,000,000	$1,000,000

Significant Items in House and Senate Appropriation Committee Reports

	Item	Action Taken or to be Taken
1986 House Report		
1.	Directs HHS to fund further development of the multi-regional Policy Impact Simulation Model (MRPIS).	The MRPIS model is not expected to be funded since the funds were eliminated through sequestration and proposed rescission. The model is of low priority and of little utility to HHS as it produces information on broad regional economic impacts, not on the population or other activities of HHS primary concern - health care, income security and social services for the elderly, disabled and poor.
2.	The Committee directed the Secretary's Task Force on Alzheimer's Disease to prepare another report following up on the Department's two previous reports.	Report is to be submitted prior to hearings on the Fiscal Year 1987 budget.

Policy Research

Authorizing Legislation - Section 1110 of the Social Security Act

1986 Appropriation		1986 Current Estimate		1987 Estimate		Increase or Decrease	
FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority	FTE	Budget Authority
6	$6,500,000	6	$6,000,000	5	$5,000,000	-1	$1,000,000

Policy Research - Cont'd.

Authorizing Legislation - Section 1110 of the Social Security Act

	1986 Appropriation Budget Authority	1986 Current Estimate	1987 Estimate	Increase or Decrease
1. Income Security and Employment	$1,841,000	$1,341,000	$1,336,000	-$ 5,000
Retirement Policy	510,000	510,000	401,000	- 109,000
Welfare Employment Policy	1,331,000	831,000	935,000	+ 104,000
2. Health	3,228,000	3,228,000	2,409,000	- 819,000
Health Insurance Policy	2,044,000	2,044,000	320,000	-1,724,000
Market Responses to Competition	861,000	861,000	1,874,000	+1,013,000
Other	323,000	323,000	215,000	- 108,000
3. Human Services	508,000	508,000	555,000	+ 47,000
Long Term Care Policy	347,000	347,000	361,000	+ 14,000
Family Policy	161,000	161,000	194,000	+ 33,000
4. Policy Support Services	923,000	923,000	700,000	+ 223,000
Total	$6,500,000	$6,000,000	$5,000,000	-$1,000,000

Policy Research

	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
FY 1976	$29,260,000	$26,300,000	$24,950,000	$24,950,000
FY 1977	24,950,000	24,950,000	12,475,000	20,000,000
FY 1978	22,400,000	40,000,000	22,400,000	30,000,000
FY 1979	27,000,000	25,000,000	27,000,000	25,000,000
FY 1980	24,715,000	24,000,000	24,000,000	24,000,000
FY 1981	22,700,000	22,000,000	19,500,000	19,500,000
FY 1982	14,696,000	15,700,000	14,000,000	13,440,000
FY 1983	14,718,000	13,440,000	14,718,000	14,718,000
FY 1984	11,000,000	10,000,000	11,000,000	10,000,000
FY 1985	8,000,000	8,500,000	9,750,000	9,750,000
FY 1986	6,000,000	6,500,000	6,000,000	6,500,000
FY 1986 Sequester	-280,000			
FY 1986 Proposed Rescission	-220,000			
FY 1987	5,000,000			

Assistant Secretary for Planning and Evaluation
Policy Research

General Statement

The Policy Research program examines broad issues that cut across agency and subject lines, as well as new policy approaches developed outside the context of existing programs. Its broad goals are to (1) provide policy-relevant information on national trends concerning public and private human resource activities to identify emerging policy problems and potential solutions, (2) provide specific data to develop and assess the impact of new potential public sector policy proposals, in particular their costs and benefits, and (3) provide information for the development of Administration strategies to influence private sector activities.

The requested FY 1987 funding level of $5,000,000 will provide for the collection and analysis of information to support development of strategies to reduce the costs of publicly provided health care, income assistance and human services; and to stimulate the increased provision of such aid by the private sector. Research is conducted in the areas discussed below:

I. Health Policy

Health Policy Research will continue to focus on the analysis of issues associated with **health care reform**, especially in areas which promise to introduce or improve the competitive aspects of the current health care delivery system. Analysis of various private sector responses to the Administration's competition initiatives will be examined to learn how the efficiency of the system is being affected by the combination of public initiative and private responses. **The Health Insurance Experiment** will have been concluded by FY 1987, but continued use of the data sets generated by that experiment are expected to contribute to further understanding of the potential gains which might accrue from the introduction of new or modified financing or tax initiatives. Also in FY 1987, research will be expanded further in analysis of **regional variation** in organization and delivery of health care.

FY 1986 Accomplishments

The Health Insurance Experiment (HIE), was concluded during FY 1986 with the production of a final report and the remaining public use files of maximum interest to the Department. The HIE generated data on 2700 families at six sites with the families being randomly assigned to different health insurance plans. Each plan varied the amount of coinsurance and out-of-pocket expenses required and the essential questions asked concerned expenditure levels and the effects of such variation on use of health services, outcomes and health status. While the final report which summarizes the main results of the experiment, are important products of this experiment, in fact, the data bases represent the most useful output products. The data bases have already been used to support other Department policy analyses and will be widely used for years into the future.

A body of studies aimed at understanding private sector health benefits and the uninsured were carried out during the year. These were designed to add to our knowledge of the private sector's approach to provision of health benefits and changes in major health plans. They also contributed to the Department's understanding of the interaction of health policy from the federal perspective and private sector needs and responses. Efforts included:

-- A study of uncompensated care examined the phenomenon of both charity care and bad debt to understand the nature and scope of this issue.

-- A study of Multiple Employer Trusts (METS) provided information important to understanding non-federal solutions to uncompensated care.

-- Research was undertaken to explore issues associated with Flexible Spending Accounts (FSAs) including plan structure designs that inhibit the rise of health care costs, tax expenditures, or have potential for producing greater coverage for underinsured populations.

Other research included:

-- The second year of a two year study designed to examine the operation of Preferred Provider Organizations, their emerging structures and potential to serve as cost effective, alternative financing and delivery system models.

-- A Study of Average Adjusted Per Capita Costs, (AAPCC) Adjustments was carried out to examine potentially more effective adjustment processes for capitated rate procedures for HMOs and, potentially for voucher approaches.

Rationale for the Budget Request

In FY 1987, research in the area of Health Policy will be conducted as follows:

Health Incentive Policy

o Further work will be carried out to examine how public policy in the related areas of tax and health care finance policy result in changes to private sector health plans, especially in the area of employment based plans. The main issues remain of how best to design incentive approaches which provide coverage to the maximum percent of the population, while reducing excessive use of the health care system.

- Major work will continue examining the effects of Prospective Reimbursement on the quality of care, on the scope of long term care in the country, and on variations in organization, scope and practice of physicians.

- The Department will undertake studies of hospital variation to better understand the relationship between PPS and the structure, capitalization and organization of hospitals in the inner city compared with suburban systems.

- Work will be continued on examination of capitated approaches to health care delivery for the Medicare population.

II. INCOME SECURITY AND EMPLOYMENT POLICY

Research on Income Security and Employment policies will continue to support the further development of policies that target assistance where the need is greatest, while controlling the costs of public and private programs and promoting individual and family initiatives. **Retirement Policy Studies** will focus on gaining knowledge that can be used to implement reforms that enhance the role of private savings, insurance and pensions in providing income for the elderly. **Welfare Policy Studies** will focus on the impact of current welfare programs and the design of reforms that will enhance the role of earnings, intra-family child support payments and other assistance transfers in providing income and on ways to encourage the transition of welfare recipients to private sector employment.

FY 1986 Accomplishments

Retirement Policy Studies

- Completed the follow-up phase of the Survey of Consumer Finances (SCF), the first survey in over twenty years designed to provide information on savings behavior, pension entitlements and the general financial outlook of retirees and persons facing retirement. ASPE jointly sponsored this survey with the Federal Reserve Board and the Departments of Treasury and Labor.

- Completed the first phase of a major interdisciplinary project on prevention of ill health among the elderly - a Workshop on the link between disease prevention and work capacity involving experts in economics, medical research and demography.

- Presented policymakers with the results from ten ASPE studies on the effects of pensions, IRA's and other financial vehicles on the economic well-being of the elderly as well as the status of women in the pension system.

- Completed two major studies on how individual retirement decisions are influenced by job characteristics, health status, and financial incentives.

- Completed a report for policymakers which will provide heretofore unavailable information and a guide to data on such topics as pension coverage, participation in Federal programs, poverty, and institutional care. No such summary exists.

- Completed a study on the effect of taxation on the provision by employers of fringe benefits. The study focused on health and pension benefits and investigated a variety of tax options, including a tax cap.

- Completed a study of property settlements and alimony awards in divorce, examining the effects of social, economic, and legal factors.

- Completed a major study on employer payroll tax incidence (that is, whether employees, employers, or consumers bear the burden). Estimates were made of the payroll tax's effect on prices, earnings, and profits.

Welfare Policy Studies:

- Completed a pilot survey of absent parents and began final data collection in order to provide better information on their economic circumstances and the impact of child support enforcement mechanisms.

- Completed a major study of policy options for reducing long-term welfare dependency.

- With the Office of Family Assistance, initiated an assessment of major state demonstrations of ways to reduce the long-term welfare dependency of teenage mothers.

- Initiated a major study of poverty and family structure in the inner city in conjunction with the Ford Foundation.

- Completed a study of the policy implications of the new AFDC work programs in San Diego, Baltimore, and West Virginia.

- Completed the eighteenth wave of interviews (1985) and design of the nineteenth year for the Panel Study of Income Dynamics.

- Prepared estimates of the costs of alternative immigration bills. Completed a report to Congress on the effects of Central American refugees on Social Security Act programs.

Rationale for the Budget Request

In FY 1987, research in the area of Income Security and Employment will be conducted as follows:

Retirement Policy Studies

- We will conduct an analysis of the 1986 telephone wave Survey of Consumer Finances which was completed in FY 86.
- We will complete a study on the economic status of the elderly, including their income, assets, and poverty, and how those vary by age, sex, and health status. Policy issues include divestiture of assets for Medicaid nursing home admission and revisions in out of pocket expenditures for Medicare.
- We will complete a study on future trends in disability patterns of the Supplemental Security Income (SSI) and Disability Insurance (DI) Programs. The growing size and changing composition of the future disabled population will be projected to assess recent disability reforms and to lay a foundation for long range planning.

Welfare Policy Studies

- Panel Study of Income Dynamics: will continue contributing to support of the longest longitudinal survey of U.S. population. Data on this low income sample are used in a number of areas.
- Poverty and Family Structure in the Inner City: will continue support for a project investigating the causes and correlates of inner city poverty and the growth of teenage motherhood; carried out in cooperation with a number of private foundations.
- Options for Reducing Teenage Welfare Dependency: will plan to evaluate state demonstrations begun in FY 1986.
- Refugees and Immigrants: will examine the likely impacts of refugees and immigrants and immigration reform legislation on the U.S. economy, particularly low-wage labor markets and transfer program participation.
- Medical Support Implementation: will assess State practices in providing medical support to the children of absent parents in the child support order.

III. SOCIAL SERVICES POLICY

Research on Social Services Policy will continue to focus on policy development activities to strengthen the self-sufficiency of families and improve the targeting and effectiveness of public programs which support the long-term care of severely impaired elderly and disabled persons. **Long-Term Care** research will focus on analyses of alternative financing and delivery systems and the factors which govern the supply and demand for institutional and community-based services. Research in **Family Policy** will look at family formation and breakdown and their relationship to Federal programs.

FY 1986 Accomplishments

Long-Term Care Policy

- Completed the evaluation of the National Long-Term Care Channeling Demonstration, a five-year, ten state study of the cost-effectiveness of community-based long-term care.
- Completed the preparation of the public use files for the National Long-Term Care Survey, a nationally representative survey of community care use among the impaired elderly.
- Completed a study of state models for organizing, financing and delivering community and institutional long-term care services.
- Completed work on designing a research agenda for examining the effects of Medicare Prospective Payment on the post-hospital needs and quality of care of persons with chronic disabling conditions.
- Initiated a study of strategies for improving the coordination of health, habilitation, vocational and employment services for the mentally retarded.
- Continued the development of a model to analyze how the supply of and demand for long-term care are affected by public regulatory and financing policies.

Family Policy

- Conducted research on factors contributing to high incidence and Federal costs of foster care and adoption assistance.
- Convened a conference on teen-age fathers -- barriers and inducements to family involvement--to identify promising approaches to such involvement.

Rationale for the Budget Request

In FY 1987, research in the area of Social Services Policy will be conducted as follows:

Long-Term Care will continue to analyze information on the supply of long-term care services, and employing the Channeling and long-term care survey data bases, model the liabilities of the principal sources of long-term care financing under a variety of assumptions. Studies will be initiated to: (1) refine predictors of community and institutional services use; and (2) track (over time) the post-hospital discharge experience of Medicare beneficiaries with long-term care needs.

Family Policy will continue work on foster care, adoption, family structures in inner-cities and family involvement of teen-age fathers.

IV. Poverty Studies

In FY 1985, $1.75 million in policy research funds were awarded to the University of Wisconsin Institute for Research on Poverty to support poverty related research in both FY 1985 and FY 1986. The primary emphasis has been on examining State and local government and private sector policies and activities that relate to poverty issues. This funding award brings to $13.8 million over 11 years, the amounts provided to that University. For FY 1987, $1.1 million of funds included in the other categories of research discussed above, will support studies relating to the conditions and alleviation of poverty. These funds will be awarded through competitive grants and contracts.

V. Support Services

Support Services provides simulation modeling and analysis, statistical analysis, and computer services used to carry out policy research in the four subject areas discussed above. The goal is to ensure efficient, reliable, and timely analytical support while offsetting increases in costs through the introduction of cost saving technologies.

FY 1986 Accomplishments

Computer Support

Provided computing support for a wide range of policy research initiatives including the Survey of Consumer Finances, tax and health care finance policy, welfare policy studies, prospective payment and quality of care as well as long term care issues.

Statistical Studies

- Continued development of the microsimulation models supporting analysis of welfare, retirement and tax reform issues.
- Developed alternative measures of the poverty gap for differing population groups and income definition.
- Restructured and redesigned the AFDC model both to utilize newly available data and to operate more efficiently. The model was used in analyzing the effects of proposed changes in the ADFC program.
- Continued redesign of the health models used in estimating the effects of changes in the tax treatment of employer provided health insurance for use in health incentive policy development. Incorporated data on the distribution of employer payments for health insurance and statistical results from the Health Insurance Experiment on the medical services utilization effects of different health insurance plans.
- Performed several studies of the relationship of capital costs to variables included in the Prospective Payment System (PPS) for paying hospitals under Medicare.

Rationale for the Budget Request

In FY 1987 the area of Support Services will continue to provide a full range of computer and statistical support for the maintenance and development of the principal HHS microsimulation models used in policy analysis. Special tabulations will be prepared using data from the 1980 Census, and continued improvements will be made to the automated inventory of social and demographic data used for planning and policy development.

Detail of Permanent Positions

	1985 Actual	1986 Estimate	1987 Estimate
Executive level IV	0	0	0
Subtotal	0	0	0
ES-4	0	0	0
ES-3	0	0	0
ES-2	0	0	0
Subtotal	0	0	0
GS/GM 15	0	1	1
14	0	0	0
13	0	0	0
GS 12	0	0	0
11	0	3	3
9	0	1	1
7	0	0	0
6	0	0	0
5	0	0	0
4	0	0	0
3	0	0	0
2	0	0	0
Subtotal	0	5	5
Grades established by Act of July 1, 1984 (42 USC 207) Commissioned Corps	0	0	0
Subtotal	0	5	5
Total permanent positions	0	5	5
Less Unfilled positions, end of year	0	0	0
Total permanent employment, end-of-year	0	5	5

FRIDAY, APRIL 18, 1986.

OFFICE FOR CIVIL RIGHTS

WITNESSES

BETTY LOU DOTSON, DIRECTOR

BART J. CRIVELLA, DEPUTY DIRECTOR FOR MANAGEMENT AND POLICY

JAMES P. HOOD, SPECIAL ASSISTANT TO THE DIRECTOR, OFFICE OF PROGRAM OPERATIONS

DENNIS P. WILLIAMS, ACTING DEPUTY ASSISTANT SECRETARY FOR BUDGET

JOHN T. HOPKINS, DIRECTOR, OFFICE OF THE SECRETARY, BUDGET SERVICES

Mr. NATCHER. We take up next the Office for Civil Rights. We have before the committee Ms. Betty Lou Dotson, the Director of the Office for Civil Rights.

Tell us who you have with you at the table.

Ms. DOTSON. The budget people, Mr. Williams and Mr. Hopkins; and from my staff, Mr. Bart Crivella on my immediate left; and Mr. Jim Hood and, waiting in the wings, if necessary, Paul Kretchmer.

Mr. NATCHER. Thank you very much.

SUMMARY OF BUDGET REQUEST

Ms. DOTSON. Mr. Chairman, I will highlight our request.

We are appreciative of the opportunity to present our request before you. For fiscal year 1987, the Office for Civil Rights is requesting $19,285,000 in obligational authority. This is an increase of $145,000 compared to the fiscal year 1986 sequestered amount.

The sum of $15,285,000 would be provided in budget authority and $4,000,000 would be transferred from the social security and hospital insurance trust funds. This request provides for 371 FTE staff, in comparison to 383 FTEs in fiscal year 1986.

Our smaller staff size is consistent with the Administration's program to restrain spending and reduce the deficit.

We anticipate that we will achieve savings in fiscal year 1986 and fiscal year 1987 through attrition, controlled hiring, management efficiencies, and space consolidation.

Productivity increases will offset decreases in staff. In fiscal year 1987, we will continue to carry out an effective and an innovative and comprehensive compliance approach to fulfill our mission.

By that, I mean that the Office for Civil Rights will not only deal with complaints, but will reach our enforcement goals through proactive efforts such as technical assistance, voluntary compliance, outreach, and pre-grant reviews.

Complaint processing will continue with a projected receipt of 1,170 new complaints. We anticipate about 112 FTEs being assigned to this activity.

I will be happy to entertain any questions which you have, Mr. Chairman.

[The statement of Ms. Dotson follows:]

STATEMENT OF BETTY LOU DOTSON

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to present the fiscal year 1987 budget request for the Office for Civil Rights (OCR).

OCR is requesting $19,285,000 in obligational authority, an increase of $145,000 compared to the sequestered FY 1986 amount. OCR's FY 1986 appropriation of $20,000,000 was reduced by $860,000 through sequestration. Of the total budget request, $15,285,000 would be provided in budget authority, together with $4,000,000 to be transferred from the Social Security and Hospital Insurance trust funds. This compares to $15,312,000 in budget authority and a transfer of $3,828,000, in FY 1986.

The budget request would provide 371 full-time equivalent (FTE) staff compared to 383 FTEs in FY 1986. This smaller staff size is consistent with the Administration's overall program to restrain spending and reduce the Federal deficit. Under this policy, OCR will achieve dollar savings throughout FY 1986 and FY 1987 through attrition, a closely controlled hiring policy, and management efficiencies, including space consolidation. These savings will enable OCR to absorb most inflationary cost increases in FY 1987. The nominal increase in the OCR budget request is mainly due to expected large increases in rental payments to the General Services Administration.

In FY 1987, OCR expects productivity increases to offset the FTE decrease. Year-end case inventories should not rise. OCR will continue to carry out an innovative, comprehensive, and effective compliance approach which includes investigations, reviews, voluntary compliance and outreach efforts. This approach is designed to ensure that the rights of HHS beneficiaries and potential beneficiaries are protected "proactively" and not solely by the "reactive" complaint activity. The FY 1987 budget for civil rights will maintain this forward momentum.

Compliance Responsibility

The mission of the Office for Civil Rights (OCR) is to eliminate unlawful discrimination and to ensure equal opportunities for the beneficiaries and potential beneficiaries of Federal financial assistance provided by the Department of Health and Human Services. OCR's objective is to accomplish its mission as effectively and efficiently as possible, with meaningful efforts to obtain voluntary compliance.

The Office for Civil Rights enforces various civil rights laws and regulations that prohibit discrimination on a variety of bases including race, color, national origin, handicap and age. OCR also enforces the community services assurance under which health care facilities assisted by the Hill-Burton Act must provide health care services to all persons residing and/or working in the service area without discrimination. Finally, OCR enforces the nondiscrimination provisions enacted under the health care and other block grants administered by the Department. On January 21, 1986, OCR published a proposed regulation to implement these provisions.

Compliance Activities

In fiscal year 1987, OCR will continue a pro-active compliance program designed to generate voluntary compliance on a wide scale among the Department's federally assisted programs and services. A total of 310 FTEs will be allocated to conduct reviews, monitor corrective action plans, carry out voluntary compliance and outreach activities, and to process discrimination complaints. These are the methods by which OCR follows up on information of alleged noncompliance and seeks to eliminate or prevent discrimination.

Reviews and Monitoring

To enforce the statutes and regulations, OCR periodically reviews the practices of recipients to determine whether or not patterns or practices of discrimination exist in Department-funded programs. Typically, OCR makes such assessments by conducting compliance reviews. OCR also conducts project reviews to follow up on specific compliance issues that have come to our attention through analyses of survey data or other compliance information. OCR plans to conduct approximately 633 compliance and project reviews in FY 1987. The number of comprehensive compliance reviews to be started will increase in both FY 1986 and FY 1987 from actual FY 1985 new starts.

OCR also conducts pre-grant reviews when notified by the Health Care Financing Administration that a health care facility has applied to participate in the Medicare program and must receive civil rights clearance. Approximately 3,000 pre-grant reviews will be completed in FY 1987.

If a review reveals or substantiates a compliance problem, OCR requires the program recipient to adopt and implement corrective measures. In addition, by means of written agreements, facilities subject to pre-grant reviews may be required to submit compliance information. Corrective action plans and agreements are monitored by OCR to assure full compliance. In FY 1987, OCR anticipates monitoring approximately 1,235 plans and agreements.

Voluntary Compliance and Outreach

The goal of OCR's voluntary compliance activity is to assist recipients in complying voluntarily with the requirements of civil rights laws and regulations in the most cost-effective way. Regional voluntary compliance and outreach staff directly provide technical assistance to recipient institutions, state and local agencies. OCR's voluntary compliance initiatives have included working with state and local agencies on aging to increase their ability to reach minority and handicapped older Americans. Recent reports indicate, for example, that one participating southwestern state increased minority participation in aging programs by more than 20 percent.

Under our outreach effort, OCR seeks to help beneficiaries and potential beneficiaries of HHS-funded programs to understand their rights and responsibilities under applicable civil rights laws and regulations, and to stimulate their participation in voluntary compliance-related activities of recipient institutions. For example, OCR has trained leaders of refugee groups on the rights of persons of limited English-speaking ability, enabling recently resettled refugees to obtain nondiscrimiratory health care services.

In FY 1987, OCR will continue and build upon successful voluntary compliance and outreach models. OCR will furnish technical assistance and compliance information to program recipients and beneficiaries through special projects, training, on-site consultations, conferences, and other contacts.

Complaint Investigations

Under the regulations implementing civil rights statutes, OCR is required to address discrimination complaints involving HHS programs in a timely manner. In addition, the Department of Justice, pursuant to their authority under Executive Order 12250, requires that each compliance agency such as OCR have procedures to resolve discrimination complaints promptly.

OCR expects to receive about 1,170 new complaints in fiscal year 1987, a small increase from the FY 1986 estimate. The 112 FTEs assigned to this activity will be adequate to process the complaint workload and reduce the year-end inventory.

Legal Services

OCR's budget request includes 27 FTEs to staff the Civil Rights Division of the Department's Office of the General Counsel, one FTE below the revised FY 1986 level.

OCR anticipates that the staff attorneys in the Civil Rights Division will be able to provide OCR with all necessary legal assistance and advice including: (1) interpreting statutes and regulations with which OCR must comply; (2) interpreting court decisions; and (3) when appropriate, conducting enforcement proceedings and referring cases to the Department of Justice.

Program Management

In fiscal year 1987, OCR will allocate 34 FTEs to program management, a decrease of two FTEs from FY 1986. This level is more than 20 percent below actual FY 1985 use and reflects OCR's commitment to reduce administrative and management staff to a bare minimum. OCR's commitment to strengthen compliance program staffing while reducing administrative and management staff was shown by the voluntary reassignment of approximately 10 headquarters staff members to regional offices during FY 1986.

Management staff determine program objectives and priorities, formulate and execute the OCR budget, monitor and evaluate compliance efforts, and make final decisions about OCR's compliance standards and procedures.

In addition, management staff provide administrative support in such areas as personnel management; travel; procurement; and, management of ADP, property, and supply systems.

Conclusion

In conclusion, Mr. Chairman, OCR's fiscal year 1987 budget request would provide 371 FTEs and $15,285,000, together with $4,000,000 to be transferred from the Social Security and Hospital Insurance trust funds. We believe this budget will enable OCR to maintain its program priorities and conduct an effective compliance program.

EFFECT OF SEQUESTER ORDER

Mr. **Natcher**. For 1986, an amount of $688,000 is being sequestered from funds appropriated to the Office for Civil Rights. Will this reduction require furloughs or staff reductions?

Ms. **Dotson**. At this point, Mr. Chairman, we do not anticipate that we will have to either furlough or have a reduction in staff, but I would like to defer to Mr. Crivella.

Mr. **Natcher**. Tell us then how you will achieve the reduction.

Mr. **Crivella**. Well, we will achieve the reduction with a net decrease of 13 FTE for the year, going from 396 to 383. We do expect with space consolidation, savings on some SLUC charges, and with the decrease of 13 FTE, that these steps will enable us to get through with that and prevent a furlough.

LEGISLATIVE CHANGES

Mr. **Natcher**. Is the Department proposing any legislative changes in the Civil Rights Act?

Ms. **Dotson**. Not to my knowledge.

LAPSED FUNDS

Mr. **Natcher**. Over the past five years, how much of the funds appropriated for the Office for Civil Rights have either lapsed or were transferred to other programs?

Mr. **Crivella**. None were transferred to other programs, and I will submit for the record the amounts that we lapsed. I think it was roughly $750,000 three years ago, and then $500,000, $250,000, but I will submit it for the record.

[The information follows:]

Lapsed funds

Fiscal year:	
1981	$438,000
1982	693,000
1983	752,000
1984	396,000
1985	127,000

STAFFING

Mr. **Natcher**. For 1987, your budget shows 390 full-time positions. How many full-time positions are filled at the present time?

Mr. **Crivella**. Currently, we are at 382.9 FTE, which is one-tenth below the 383 FTE ceiling, Mr. Chairman.

Mr. **Natcher**. How many of your current positions are in Washington and how many are in the regional offices?

Mr. **Crivella**. We are at 138 in Washington, sir, and the rest of the staff are in the field. It is a ratio of about 68 percent in the field, which is up from 66 percent last year and 63 percent two years ago.

Following your recommendations of last year, we have attempted to decentralize the Washington staff.

Mr. **Natcher**. Will all of your proposed staff reductions for 1987 take place in the regional offices?

Mr. CRIVELLA. No, sir, we have stabilized the regional offices and are presently proposing a reorganization in headquarters. Within the last two months, we have transferred 16 positions to the field, and I see a further transfer of seven from headquarters to the regions.

I do not see that the 12 FTE decrease that we will have to assume in fiscal year 1987 to be taken out of the field.

ATTORNEY STAFF

Mr. NATCHER. How many attorneys do you have available for the Office for Civil Rights?

Mr. CRIVELLA. There are 22 attorneys and four clericals. The FTE ceiling is 28 including clericals. Washington has 11 attorneys and three clericals. The field has 11 attorneys, and one clerical.

SECURITY CLEARANCE

Mr. NATCHER. Do you require national security clearances in hiring new staff or promoting existing staff?

Mr. CRIVELLA. No, sir.

CASELOAD

Mr. NATCHER. Would you say generally that your civil rights caseload has leveled off in recent years?

Ms. DOTSON. Yes, we continue to experience a decline in complaints, and I think that the program people can bear me out on that.

PROJECT REVIEWS

Mr. NATCHER. We see in the budget justifications that the workload of new project reviews declined from 640 cases in 1985 to 390 in 1986.

What accounts for the 60-percent decline? What about it, Mr. Hood?

Mr. HOOD. In the prior years we had a backlog of cases that could be handled through project reviews. We have completed most of those things now, and so we had a general decline of cases within those areas. We are transferring our efforts now into the compliance review area, where they are multi-issue, more in-depth, and we get more bang out of our buck.

BLOCK GRANT PROVISIONS

Mr. NATCHER. Your budget also indicates your office recently implemented the non-discrimination provisions of the block grant statutues. Block grant programs have existed since 1982.

Why has it taken so long to implement these provisions?

Ms. DOTSON. Well, Mr. Chairman, we have been working on those regulations almost from the day we walked in. I don't recall the exact date, but it was about two years ago, to the best of my recollection, that our office completed the regulations.

However, the regulations go through quite a process within the Department, and they went back and forth from our office to the Department of Justice, and to EEOC.

At one point in time we were in agreement, as I recall, with EEOC, but Justice didn't agree with us. That went on for quite a time.

However, those regulations have now been published, and we are at the point that we are reviewing whatever comments we have received.

Mr. **Natcher.** Generally, what compliance or complaint workload has resulted from the block grant programs?

Ms. **Dotson.** Are you asking what or how many complaints we have had against programs that receive block grant funds? Is that the intent of your question?

Mr. **Hood.** I think it was approximately 22 such complaints within that arena.

JUSTICE DEPARTMENT REFERRALS

Mr. **Natcher.** How many of your cases were referred to the Department of Justice during fiscal year 1985?

Mr. **Hood.** Could we submit that for the record. I am not sure, but I believe that there might have been—are you talking about this fiscal year, sir?

Mr. **Natcher.** The last fiscal year, 1985.

Mr. **Hood.** I don't believe that there were many. I think there were perhaps four, but we will submit that for the record.

[The information follows:]

Justice Department Referrals

During fiscal year 1985, no cases were referred to the Department of Justice (DOJ). Three cases were in process at DOJ during fiscal year 1985.

Mr. **Natcher.** If the Department of Justice refuses to handle your case referrals, what happens to them? Do you just drop them?

Ms. **Dotson.** Mr. Chairman, I don't have any idea, because that has never happened.

CONGRESSIONAL INQUIRY

Mr. **Natcher.** That is good. When we take our bill to the Floor of the House, we have found, generally speaking, that the members in the House of Representatives always join with us on this bill.

I have been here for a number of years, and I recall back during the days when this bill would stay over in that House chamber three days, four days, five days.

We have an excellent staff on this committee, and we work hard on this subcommittee. We take our bill over there, and we pass our bill always in one day.

Two years ago, it was an hour and 35 minutes, the second largest appropriation bill, and the reason for that, Ms. Dotson, is because we have the members over there, not only from the south and the west and the east and the north, helping us, but from the large cities, and one is a friend of mine by the name of Ted Weiss.

Ted Weiss joins with us on our bill, and when we have some problems over there, he helps us with it.

You have a letter down there in your file dated April 11, 1986. It is from Ted Weiss, in regard to some request he is making. Go back and take a look at your letter, and see if you can't work this matter out.

We need people like Ted Weiss helping us with your request and all the rest of the budget. You don't have a member in the House, 435, any stronger for civil rights than Ted Weiss, and I know what I am talking about. I was here long before he got here.

Take a look and see if you can't work out something.

Ms. DOTSON. Yes, Mr. Chairman.

Mr. NATCHER. Ms. Dotson, this has been a good hearing. We appreciate you and your staff appearing before our committee in behalf of your budget request for the fiscal year 1987.

The committee will now adjourn until Monday at 2.

[The following questions were submitted to be answered for the record:]

PERMANENT POSITIONS

Mr. Hoyer. How many positions will you lose under your FY 87 request?

Ms. Dotson. The Office for Civil Rights (OCR) will be reduced from 430 permanent positions in FY 1986 to 390 permanent positions in FY 1987. This reduction of 40 positions brings the number of authorized positions in line with the requested FTE ceiling for FY 1987.

FTE REQUEST

Mr. Hoyer. How many FTE(s) are you budgeted for in FY 87? What was the number based on the FY 86 appropriation?

Ms. Dotson. The Office for Civil Rights (OCR) is asking for 371 FTE in FY 1987. The FY 1986 appropriation, prior to sequestration, was estimated to support 396 FTE. Following sequestration, we have estimated that OCR can support 383 FTE.

DISCRIMINATION COMPLAINTS

Mr. Hoyer. Your justification notes that the number of incoming discrimination complaints has fallen below last year's budget projections enabling you to process the workload with fewer staff. Why do you think the number is decreasing?

Ms. Dotson. It is difficult to determine exactly what would cause the slight decrease from last year's projections. We are, however, through our voluntary compliance and outreach activities, working to increase recipient and program beneficiary awareness of civil rights responsibilities and requirements and to assure that potential complainants are aware of the process to be followed in filing complaints.

COMPLIANCE REVIEWS

Mr. Hoyer. You mention that the use of single authority-focused project reviews will decline and greater emphasis will be placed on comprehensive compliance reviews. Please explain the difference between the two and the reason for the change?

Ms. Dotson. A compliance review is a comprehensive, on-site review that often involves large State agency programs and usually covers several, if not all, of our statutory civil rights authorities. A project review, in contrast, is usually of shorter duration than a compliance review and is used to follow up on specific compliance problems that come to light through surveys, compliance reports or other sources. The primary reason for reducing the number of project reviews and increasing the FTE allocation to comprehensive compliance reviews is that we have largely completed the process of following up on possible compliance problems identified in the 1981 hospital survey and prior-year Hill-Burton Community Service Assurance reports.

COMPLAINT PROCESSING

Mr. Hoyer. What is the average time taken to process a complaint between the time it's received and the time its closed?

Ms. Dotson. During FY 1985, a complaint was closed in an average of 150 days.

Mr. Hoyer. Has the average time decreased or increased since you've been the head of the office?

Ms. Dotson. The first full fiscal year of my tenure as Director of the Office for Civil Rights was FY 1982. The average age of closed complaints has decreased by one-third since FY 1982 --- from 225 days in that year to 150 days in FY 1985.

PRE-GRANT REVIEWS

Mr. Hoyer. According to your justification, the pre-grant review workload declined in FY 85 after rising in FY 84. Why was there this rollercoaster effect?

Ms. Dotson. The number of pre-grant reviews that OCR conducts each year is dependent on the number of facilities applying to the Health Care Financing Administration for Medicare certification or re-certification. In the increasingly competitive health care industry it is difficult to predict how many new providers will seek certification and how many changes in ownership will require re-certification for the Medicare program. Our initial projections of the pre-grant review workload anticipated growth in the number of home health agencies, ambulatory surgery centers, and hospices seeking Medicare certification. The earlier estimates projected that most hospices would seek certification. In fact, however, as of the end of 1985 only 245 of approximately 1,500 hospices were Medicare-certified. Our current estimates of pre-grant review workload take the lower than anticipated Medicare-certified hospice growth rate into account.

Mr. Hoyer. You state that 58 FTEs will be assigned to pre-grant reviews in FY 86-87 and that this commitment is larger than you anticipated in the FY 86 budget justification submitted last year. You state further that more staff time on average is required to conduct these reviews. How many FTEs were assigned to this task in FY 81, FY 82, FY 83 and FY 84?

Ms. Dotson. FTEs allocated to pre-grant reviews during fiscal years 1981 through 1984 were as follows:

FY 1981 - 6
FY 1982 - 6
FY 1983 - 6
FY 1984 - 35

Mr. Hoyer. Why is the commitment larger than you anticipated last year?

Ms. Dotson. Since the preparation of last year's budget, we have had a full year of experience in carrying out comprehensive pre-grant reviews that address Title VI, Section 504, and Age Discrimination Act issues. Last year's estimate understated the amount of time necessary to carry out these expanded reviews. The average time needed to complete a review is greater than originally estimated when OCR first broadened the scope of these reviews.

Mr. Hoyer. Why is more staff time required to do pre-grant reviews?

Ms. Dotson. The change in the scope of reviews combined with the types of providers seeking certification has led to an increase in the amount of time needed to complete pre-grant reviews.

MONITORING

Mr. Hoyer. Why is your monitoring workload decreasing?

Ms. Dotson. The monitoring workload is decreasing because we are reducing the number of single authority-focused project reviews and receiving and processing fewer pre-grant certification requests than previously projected.

STAFFING REQUIREMENTS

Mr. Hoyer. In at least two areas, pre-grant reviews and voluntary compliance and outreach, the staffing requirements for FY 86 were underestimated. Why is this?

Ms. Dotson. As previously indicated, since the preparation of last year's budget, we have had a full year of experience in carrying out comprehensive pre-grant reviews that address Title VI, Section 504 and the Age Discrimination Act issues. The average time needed to complete a review is greater than originally estimated when the Office for Civil Rights (OCR) first broadened the scope of these reviews. An underestimation of the number of contacts and intensity of involvement in individual voluntary compliance and outreach activities resulted in the underestimate of FY 1986 staffing required for these activities.

Mr. Hoyer. Are there other areas where your estimates in FY 86 were off?

Ms. Dotson. Our estimates of staffing needed in FY 1986 for project reviews, compliance reviews, and monitoring have also changed from last year's budget projections. The changes are due to our reduction in the number of project reviews and the increased emphasis on comprehensive compliance reviews.

AIDS

Mr. Hoyer. Does the Office for Civil Rights have a policy covering AIDS as a disability? If not, why not?

Ms. Dotson. OCR has not issued a written policy with regard to Section 504 and AIDS. However, the lack of a broad statement of policy has not prevented OCR from receiving and processing AIDS related complaints.

There are currently six AIDS-related complaints that are in various stages of the OCR investigatory process. Pursuant to Executive Order 12250, we have referred to the Department of Justice certain legal jurisdictional issues affecting the disposition of these cases.

Mr. Hoyer. If you requested an opinion from the Department of Justice, when was the request made?

Ms. Dotson. The request for an opinion was made on March 11, 1986.

Mr. Hoyer. The first complaint involving AIDS was filed with OCR in July, 1984. The complainant died last month. Why did you wait so long after the first case involving AIDS was filed to ask the Justice Department for an opinion on this matter?

Ms. Dotson. OCR handled its first Section 504 complaint based on AIDS as the alleged handicapping condition in accordance with its normal procedures. For a time it appeared as if the complaint would be resolved on a voluntary basis. When it was not, OCR completed its investigation and prepared draft findings and a recommended decision. Because of the novel issues raised by the case, the Department of Justice in its coordinating role under Section 504 pursuant to Executive Order 12250 was advised informally of these developments. At that time, DOJ requested that the issue of the extent to which AIDS may be a handicapping condition within the meaning of Section 504 be referred to them. Accordingly, it was at this time that the referral was made.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

DEPARTMENTAL MANAGEMENT

Office for Civil Rights

FY 1987 Budget

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DEPARTMENTAL MANAGEMENT

Office for Civil Rights

For expenses necessary for the Office for Civil Rights, [$16,000,000] *$15,285,000* together with not to exceed $4,000,000 to be transferred and expended as authorized by section 201(g)(1) of the Social Security Act from any one or all of the trust funds referred to therein.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
DEPARTMENTAL MANAGEMENT
OFFICE FOR CIVIL RIGHTS

Amounts Available for Obligation

	1985	1986	1987
Appropriation			
Annual	$17,850,000	$16,000,000	$15,285,000
Sequester order	---	-688,000	---
Subtotal, adjusted appropriation	17,850,000	15,312,000	15,285,000
Receipts and reimbursements from:			
Trust funds	2,350,000	4,000,000	4,000,000
Sequester order	---	-172,000	---
Subtotal, adjusted trust funds	2,350,000	3,828,000	4,000,000
Unobligated balance lapsing	-127,000	---	---
Total obligations	20,073,000	19,140,000	19,285,000

Office for Civil Rights
Summary of Changes

1986 Estimate	$16,000,000
1986 Sequester order	- 688,000
Total estimated budget authority	15,312,000
1987 Request	15,285,000
Net Change	-27,000

	1986 base	Change from base
Increases:		
Built-in:		
1. Increase in rental payments to GSA	$1,296,000	+$328,000
2. Increases for career ladder and within grade promotions and merit pay	15,837,000	+197,000
3. Increases for inflationary costs of other rents, communications and utilities; printing and reproduction; supplies and materials; other services, travel of persons and transportation of things	2,007,000	+80,000
Subtotal		+605,000
Decreases:		
Built-in:		
1. Decrease in budget authority due to increased trust fund transfer	15,312,000	-172,000
Subtotal		-172,000
Program:		
1. Decreases resulting from attrition and lower grade hiring policies	15,837,000	-445,000
2. Decreases resulting from partial absorption of inflationary increases	2,007,000	-15,000
Subtotal, program decreases.		-460,000
Subtotal, decreases		-632,000
Net change		-27,000

Office for Civil Rights

Budget Authority by Activity

	1985 Actual		1986 Appropriation		1986 Current Estimate		1987 Estimate	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Office for Civil Rights........	397	$17,723,000	396	$16,000,000	383	$15,312,000.	371	$15,285,000

Budget Authority by Object

	1986 Appro.	1986 Current Estimate	1987 Estimate	Increase or Decrease
otal number of permanent positions	430	430	390	-40
Full-time equivalent of all other positions	15	15	15	—
Total compensable workyears	396	383	371	-12
Average ES Salary	$68,477	$68,477	$68,477	—
Average GS Grade	10.65	10.84	11.14	+0.30
Average GS Salary	$35,664	$36,032	$36,572	+$540
Personnel compensation:				
Full-time permanent	$14,108,000	$13,712,000	$13,509,000	-$203,000
Other than full-time permanent	328,000	319,000	314,000	-5,000
Other personnel compensation	142,000	138,000	136,000	-2,000
Subtotal, personnel compensation	$14,578,000	$14,169,000	$13,959,000	-$210,000
Personnel benefits	1,831,000	1,668,000	1,630,000	-38,000
avel and transportation of persons	572,000	517,000	572,000	+55,000
Transportation of things	135,000	74,000	30,000	-44,000
Rental payments to GSA	1,365,000	1,296,000	1,624,000	+328,000
Rent, communications & utilities	850,000	779,000	810,000	+31,000
Printing and reproduction	70,000	68,000	70,000	+2,000
Other services	504,000	476,000	495,000	+19,000
Supplies and materials	75,000	73,000	75,000	+2,000
Equipment	20,000	20,000	20,000	—
Total obligations by object	$20,000,000	$19,140,000	$19,285,000	+$145,000
Less: Trust fund transfers	-4,000,000	-3,828,000	-4,000,000	-172,000
Total budget authority by object	$16,000,000	$15,312,000	$15,285,000	-$27,000

Authorizing Legislation

	1986 Amount Authorized	1986 Current Estimate	1987 Amount Authorized	1987 Budget Request
Office for Civil Rights:				
P.L. 88-352; 42 U.S.C. 300s; P.L. 91-616; P.L. 92-157; P.L. 92-158; P.L. 92-255; P.L. 93-282; P.L. 93-348; P.L. 94-484; P.L. 95-567; and, P.L. 97-35.............	Indefinite	$8,422,000	Indefinite	$8,407,000
P.L. 92-318; P.L. 93-112; and, P.L. 94-135............	Indefinite	$6,890,000	Indefinite	$6,878,000
Total................		$15,312,000		$15,285,000

Office for Civil Rights

	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1978				
Appropriation	44,603,000	41,951,000	41,807,000	41,807,000
SSA transfer	514,000	514,000	514,000	514,000
1979				
Appropriation	68,227,000	68,227,000	68,227,000	68,227,000
SSA transfer	1,200,000	1,200,000	1,200,000	1,200,000
1980				
Appropriation	42,474,000	43,646,000	43,646,000	43,646,000
SSA transfer	2,350,000	2,350,000	2,350,000	2,350,000
1981				
Appropriation	19,036,000	17,420,000	—	17,420,000
SSA transfer	2,350,000	2,350,000	—	2,350,000
1982				
Appropriation	17,460,000	17,460,000	17,460,000	17,460,000
SSA transfer	2,256,000	2,256,000	2,256,000	2,256,000
1983				
Appropriation	19,163,000	19,163,000	19,163,000	19,163,000
SSA transfer	2,350,000	2,350,000	2,350,000	2,350,000
1984				
Appropriation	19,363,000	18,945,000	19,363,000	18,945,000
SSA transfer	2,350,000	2,350,000	2,350,000	2,350,000
1985				
Appropriation	17,850,000	17,850,000	18,945,000	17,850,000
SSA transfer	2,350,000	2,350,000	2,350,000	2,350,000
1986				
Appropriation	15,636,000	15,636,000	16,259,000	16,000,000
SSA transfer	4,000,000	4,000,000	4,000,000	4,000,000
1986 Sequester				
Appropriation	-688,000			
SSA transfer	-172,000			
1987				
Appropriation	15,285,000			
SSA transfer	4,000,000			

Office for Civil Rights

Authorizing legislation - Civil Rights Act of 1964, as amended; Rehabilitation Act of 1973, as amended; Age Discrimination Act of 1975, as amended; Public Health Service Act; Education Amendments of 1972; Omnibus Budget Reconciliation Act of 1981; Section 398 of the Communications Act of 1934.

1987 Authorization: Indefinite

Obligational Authority:
(Budget Authority)

1986 Appropriation	1986 Available after Sequestering	1987	Increase or Decrease
$20,000,000 ($16,000,000)	$19,140,000 ($15,312,000)	$19,285,000 ($15,285,000)	+ $145,000 (-$27,000)

General Statement

The Office for Civil Rights (OCR) is responsible for enforcing the following civil rights-related statutes in health care and human services programs:

- Title VI of the Civil Rights Act of 1964, which prohibits discrimination on the basis of race, color, or national origin in federally assisted programs and activities.
- Section 504 of the Rehabilitation Act of 1973, which prohibits discrimination against qualified handicapped persons on the basis of physical or mental handicap in federally assisted programs and activities.
- Age Discrimination Act of 1975, which prohibits discrimination on the basis of age in federally assisted programs and activities.
- Sections 704 and 855 of the Public Health Service Act, prohibiting discrimination on the basis of sex in admission to health-related training programs funded under the Act.
- Titles VI and XVI of the Public Health Service Act, which require facilities assisted by the Hill-Burton Act to provide health care services to all persons residing in the service area in a nondiscriminatory manner.

- o Title IX of the Education Amendments of 1972, which prohibits discrimination on the basis of sex in education programs and activities funded by the Department of Health and Human Services.

- o Provisions of the Omnibus Budget Reconciliation Act of 1981 requiring nondiscrimination on the basis of race, color, national origin, handicap, age, sex and/or religion in health care and other block grant programs.

- o Section 398 of the Communications Act of 1934 (Section 309 of the Public Telecommunications Financing Act of 1978) which prohibits employment discrimination and requires equal employment opportunity in public broadcasting.

There are approximately 230,000 group and institutional providers of federally-assisted services that are subject to the nondiscrimination laws that OCR enforces. Recipients of Department funds include hospitals, extended care facilities, community mental health centers, alcohol and drug treatment centers, family health centers and clinics, health-related training facilities, State and local public assistance agencies, adoption agencies, foster care homes, day care centers, senior citizens centers and nutrition programs. Under the statutes enforced by the Department, providers of health care and social services are prohibited from discriminating on the basis of race, color, national origin, handicap, or age. In addition, some statutes apply generally or in a limited manner to employment discrimination and discrimination on the basis of sex and religion.

Summary of FY 1986 and FY 1987 Budgets

FY 1986 Budget - The revised FY 1986 budget includes $15,312,000 in budget authority and $3,828,000 transferred from the Social Security trust funds for a total of $19,140,000. This reflects a reduction of $860,000, or 4.3 percent, from the FY 1986 appropriation of $20,000,000 as a result of sequestration.

The revised budget would authorize 383 FTEs, a decrease of 13 FTEs compared to the number projected in last year's congressional budget justification. OCR is reducing FTE usage through attrition. The decrease in FTEs and other cost-saving measures, such as space consolidation, will enable OCR to absorb the 4.3 percent reduction without resorting to layoffs or other severe cutbacks in the compliance program.

FY 1987 Budget - The proposed FY 1987 budget would provide $15,285,000 in budget authority and $4,000,000 to be transfered from the Social Security trust funds for a total of $19,285,000. At this level, OCR will be able to support 371 FTEs and cover inflationary cost increases, including an anticipated 25 percent increase in space rental charges paid to GSA.

OCR expects a net decrease of $248,000 in personnel costs and increased costs in areas such as travel, communications, and rental payments to GSA.

As in FY 1985, OCR expects to carry out a full range of compliance activities under the FY 1986 and FY 1987 budgets.

The following table shows the distribution of FTEs by activity:

	Full Time Equivalent Staff	
Activity	FY 1986	FY 1987
1. Compliance	319	310
(Complaint Processing)	(114)	(112)
(Reviews)	(142)	(138)
(Monitoring)	(12)	(12)
(Voluntary Compliance and Outreach)	(51)	(48)
2. Legal Services	28	27
3. Program Management	36	34
TOTAL	383	371

Regulations Activities

OCR's responsibility is to enforce and implement the nondiscrimination statutes. Broadly speaking, all OCR FTEs, except those devoted to some support functions, are involved in activities relating to the development, review, and enforcement of the civil rights statutes and regulations.

Under Executive Order 12250, the Department of Justice is responsible for coordinating Federal enforcement of the civil rights statutes and for setting overall enforcement policy. Department of Justice guidelines establish the basic compliance standards and procedures that departments and agencies such as OCR must follow in developing and enforcing their own program services-related nondiscrimination regulations to implement Title VI, Section 504, and other statutes.

Under the existing nondiscrimination regulations enforced by the Department, recipients of Department funds must provide such information as may be needed by OCR to monitor and determine their compliance status. Individual program recipients, when subject to review or investigation, may be requested to submit information about their programs. Health care facilities that received Hill-Burton Act funds continue to submit periodic reports on the status of their community service assurances, which they are required by statute to complete.

On January 21, 1986, OCR issued a proposed regulation to implement the nondiscrimination provisions of the block grant statutes. Appropriate training and technical assistance must be provided to State agencies. In addition, the Department is required to develop and implement a regulation applying Section 504 compliance standards to Department-operated programs. This regulation will not impose any new reporting or data collection requirements beyond those already contained in existing civil rights regulations.

1. COMPLIANCE ACTIVITIES

OCR's main objective is to generate civil rights compliance on a wide scale among the Department's federally assisted programs and services. To meet this objective, OCR carries out a variety of activities designed to identify, remedy, and prevent problems of discrimination. In the budget, these activities are identified as follows:

- Complaint Processing;
- Reviews;
- Monitoring;
- Voluntary compliance and outreach activities.

OCR's revised FY 1986 budget authorizes a total of 383 FTEs. Of the total, 319 FTEs are allocated to compliance activities. This allocation is approximately the same as projected in last year's congressional budget justification despite the loss of 13 FTEs through attrition, a result of sequestration. The FTE loss is being absorbed in other areas, such as in program management. In addition, during FY 1986 OCR expects to reassign approximately 10 headquarters staff members to regional offices. For these reasons, OCR expects FY 1986 work activity to measure up to FY 1985 accomplishments.

OCR's FY 1987 budget authorizes a total of 371 FTEs, a decrease of 12 FTEs from the revised FY 1986 level. In total, the number of FTEs allocated to all compliance activities in FY 1987 will drop by nine FTEs — from 319 FTEs in FY 1986 to 310 FTEs in FY 1987. The impact of the reduction will be negligible, for several reasons. The number of incoming discrimination complaints has fallen below last year's budget projections, enabling OCR to process the complaint workload during FY 1985 and FY 1986 with fewer staff than originally expected. Also, fewer FTEs are needed for monitoring than originally projected in OCR's FY 1986 budget justification. These and other changes have enabled OCR to emphasize other major compliance activities, such as compliance reviews and outreach. For example, whereas OCR had originally assigned 133 FTEs to all types of reviews in last year's FY 1986 budget request, we now anticipate that 142 FTEs will be available for reviews in FY 1986 and 138 FTEs in FY 1987.

In all workload areas, case inventories are not expected to increase. In processing complaints and conducting compliance reviews, OCR anticipates further reducing year-end inventories.

As in FY 1985, OCR will continue to place major emphasis on voluntary compliance and outreach activities. These activities are mainly "preventive" in nature in that they are designed to deter civil rights violations by encouraging program recipients to adopt nondiscrimination policies and procedures. Broadening awareness of nondiscrimination standards is essential to assure compliance among the Department's thousands of individual program and service providers. Despite the overall loss of FTEs in FY 1986, OCR is allocating 51 FTEs to voluntary compliance and outreach, an increase of 15 FTEs above the level originally projected.

OCR's total FY 1985 caseload, excluding monitoring actions, encompassed 6,602 discrimination complaints and reviews. OCR completed action on 5,442 cases, including 4,593 investigated closures. The case closures resulted in 4,529 discrete changes — affirmative measures taken by program recipients to remedy or prevent discrimination problems.

Total case closures will decline this fiscal year and in FY 1987 because OCR plans to reduce the number of new single authority-focused project reviews. Greater emphasis will be placed on comprehensive compliance reviews which, while they typically consume more staff time, have proven to be an effective means of assessing compliance with all of OCR's major civil rights statutes and remedying compliance problems.

When a complaint investigation or review discloses evidence of discrimination, OCR seeks to remedy compliance problems by securing voluntary compliance agreements. However, if voluntary compliance cannot be obtained, enforcement action is taken, as required by the statutes and implementing regulations.

Complaint Processing

Purpose and Method of Operations - OCR's policy is to process all complaints of discrimination that are filed and to conduct a timely investigation if necessary. This policy is based on the Department's regulations implementing the nondiscrimination statutes and the Department of Justice coordinating regulations requiring compliance agencies such as OCR "to establish procedures for the prompt processing and disposition of complaints" alleging discrimination (28 CFR Section 42.408(a)). Court decisions interpreting Title VI of the Civil Rights Act have established that departments and agencies have an obligation to respond promptly to information of possible civil rights violations.

A complaint investigation usually requires field visits, interviews with recipient staff and community organizations and the collection and analysis of evidentiary data. If a complaint is found to be valid, recipient officials must take steps to remedy the civil rights violations.

In FY 1985, OCR processed a total of 1,603 discrimination complaints and completed action on 1,166 of the cases. New receipts totaled 1,116 complaints, slightly fewer than the 1,165 new receipts projected in last year's budget justification.

Most complaints allege discrimination on the basis of race or national origin (Title VI) or handicap (Section 504). Corrective actions resulting from complaint investigations included changes in recipients' service provision, outreach and recruitment methods, and policies and procedures. For example, four northeastern hospitals, with a total of more than 2,000 beds, agreed to review their residency program admissions policies to ensure that they do not discriminate on the basis of race, color, or national origin. Corrective steps taken as a result of complaint investigations involving Section 504 issues included accomodating handicapped employees, providing access to program services, and ensuring equal and comparable services. In cases arising under other nondiscrimination statutes, compliance activities included a negotiated agreement between OCR and a hospital ensuring that Medicaid would be accepted as payment in full for services rendered in the emergency room, as required by the community service assurance under the Hill-Burton Act. Another negotiated settlement involved a State Department of Mental Health which agreed to revise state policy to assure appropriate placement of children in state mental hospitals.

Rationale for the Budget Request - In FY 1987, OCR will allocate 112 FTEs to processing complaints, a decrease of two FTEs compared to the revised FY 1986 level of 114 FTEs. This allocation will be adequate to process discrimination complaints in a timely manner and reduce the year-end inventory. Although OCR had earlier predicted a rise in the inventory of complaint cases at the end of FY 1985, this did not occur because OCR completed a larger number of complaint cases than anticipated and fewer new complaints were received. As the following table shows, we expect a stable complaint workload and a moderate decline in year-end inventories in FY 1986 and FY 1987. (The year-end inventory includes complaints newly received during the fourth quarter as well as cases that are being actively processed.)

This table summarizes OCR's FY 1985 workload and projected complaint activity in FY 1986-87:

Complaint Workload

Status/Activity	FY 1985	FY 1986	FY 1987
Beginning Inventory	487	437	402
Complaints Received	1,116	1,145	1,170
Complaints Closed	1,166	1,180	1,180
Ending Inventory	437	402	392

Reviews

Purpose and Method of Operations - Regulations implementing the nondiscrimination laws obligate the Department to periodically review recipient programs to ensure compliance.

The purpose of a review is to assess the compliance status of a program recipient and secure corrective action if necessary. As such, reviews are an important aspect of OCR's overall activity in enforcing the nondiscrimination statutes and regulations.

OCR conducts the following types of reviews:

- Compliance reviews - a compliance review is a comprehensive, on-site review that often involves large State agency programs and usually covers several statutory civil rights authorities.
- Project reviews - a project review is usually of shorter duration than a compliance review and is chiefly used to follow up on specific compliance problems that come to light through surveys, compliance reports, or other sources.

- Pre-grant reviews - a pre-grant review is conducted when health care facilities seek approval from the Department's Health Care Financing Administration to participate in the Medicare program.

During FY 1985, OCR conducted a total of 943 compliance reviews and project reviews and completed 782 reviews. These indicators are in line with the results of the previous year, when OCR conducted 901 compliance and project reviews and completed 760 reviews. As a result of the reviews completed in FY 1985, program recipients made 854 specific changes in their policies and practices to comply with nondiscrimination requirements. These changes involved, for example: the development of a plan to assure that race will not be used as the sole criterion for referral and placement of children in child care institutions; provision of interpreter services for limited-English-speaking minorities; the adoption of auxiliary aids by health facilities to ensure that hearing-impaired and sight-impaired individuals can gain access to emergency room treatment and to other services; and procedures to ensure that Hill-Burton health care facilities comply with their community service obligation. Recipients subject to review included hospitals, area aging agencies and senior citizen centers, social service providers, State agencies, and long-term care facilities.

OCR conducted a total of 689 project reviews in FY 1985, including 49 carryover reviews and 640 new reviews. Ninety percent of the facilities reviewed were hospitals where OCR staff followed up on possible compliance problems cited in the hospital civil rights survey and Hill-Burton community service assurance reports.

Pre-grant reviews determine whether prospective Medicare providers are complying with nondiscrimination requirements under Title VI, Section 504, and the Age Discrimination Act. In FY 1985, OCR began 3,067 new pre-grant reviews because of Medicare certification requests, a decrease of 437 starts compared to FY 1984. A total 3,780 pre-grant reviews were conducted, which includes reviews in process carried over from the previous year.

Rationale for the Budget Request - In FY 1987, OCR plans to assign a total of 138 FTEs to review activities, including compliance reviews, project reviews, and pre-grant reviews. This is a decrease of four FTEs compared to FY 1986. Sixty-eight (68) FTEs will be allocated to compliance reviews which will enable OCR to increase the number of these reviews conducted and completed, as compared to actual FY 1985 accomplishments. As indicated below, whereas OCR conducted a total of 254 compliance reviews in FY 1985, 276 compliance reviews are projected in FY 1986 and 256 compliance reviews in FY 1987.

The following table summarizes the FY 1985 workload and provides FY 1986-87 projections for compliance reviews:

Compliance Reviews

Status/Activity	FY 1985	FY 1986	FY 1987
Beginning Inventory	103	119	96
New Reviews	151	157	160
Reviews Completed	135	180	175
Ending Inventory	119	96	81

In FY 1986-87, OCR will decrease the number of new single authority project reviews and the number of FTEs allocated to this activity. Whereas 24 FTEs were allocated to this activity in FY 1985, OCR plans to allocate 14 FTEs in FY 1986 and 12 FTEs in FY 1987. This decrease, among other workload changes, allows for a larger commitment to comprehensive compliance reviews, pre-grant reviews, and voluntary compliance and outreach. There are three reasons for the change: (1) OCR has largely completed the process of following up on hospital survey data and other survey data acquired in previous years, a process that had enlarged the single authority-focused project review workload; (2) comprehensive compliance reviews and project reviews have both proven to be effective techniques for identifying, remedying, and preventing problems of discrimination; and (3) additional staff time is needed to handle the pre-grant workload.

The following table summarizes the FY 1985 workload and provides estimates for project reviews in FY 1986-87:

Project Reviews

Status/Activity	FY 1985	FY 1986	FY 1987
Beginning Inventory	49	42	42
New Reviews	640	390	335
Reviews Completed	647	390	335
Ending Inventory	42	42	42

As expected, the pre-grant review workload declined in FY 1985 after rising the year before. OCR anticipates a stable workload in this area in FY 1986-87, including approximately 3,000 new reviews per year. Fifty-eight (58) FTEs will be assigned to pre-grant reviews in FY 1986-87. This commitment is larger than we anticipated in the FY 1986 budget justification submitted to Congress last year. More staff time on average is required to conduct a pre-grant review than originally estimated when OCR first broadened the scope of these reviews.

The following table summarizes the pre-grant review workload in FY 1985 and provides projections for FY 1986-87:

Pre-grant Reviews

Status/Activity	FY 1985	FY 1986	FY 1987
Beginning Inventory	713	562	562
New Reviews	3,067	3,000	3,000
Reviews Completed	3,218	3,000	3,000
Ending Inventory	562	562	562

In addition to field investigators, the FTEs assigned to reviews include supervisory and support staff. During FY 1986 and FY 1987, this staff will provide the following types of assistance:

- Provide guidance to the regional offices by reviewing case findings and settlements;
- Review comments on proposed regulations and develop final regulations;
- Manage the Hill-Burton community service assurance reporting system and research and analyze other compliance information as necessary;
- Prepare policy determinations, review procedures, work measurement, and other workload analyses;
- Conduct quality assurance and management reviews of regional operations; and
- Supervise reviews and other procedures designed to enforce the nondiscrimination provisions of the block grant programs.

Monitoring

Purpose and Method of Operations - The purpose of monitoring is to ensure that program recipients carry out the corrective steps set forth in compliance plans agreed to by OCR. Monitoring generally involves the review of reports or data submitted by program recipients. In some cases on-site visits are required to assess progress in implementing corrective measures.

Corrective action plans are negotiated to resolve compliance problems that are uncovered or confirmed during reviews and complaint investigations. In addition, facilities subject to pregrant reviews may be required to submit data to enable OCR to make a compliance determination.

In FY 1985, OCR initiated 1,485 monitoring actions, a larger number than originally anticipated. New starts will drop to about 1,250 in FY 1986 and to 1,235 in FY 1987. Fewer monitoring actions will be necessary in FY 1986-87 because the number of plans to be monitored as a result of project and pre-grant reviews will decline.

Rationale for the Budget Request - OCR plans to allocate 12 FTEs to monitoring in FY 1987, the same number projected for FY 1986. As indicated earlier, although the number of monitoring actions rose sharply in FY 1985, this activity required less staff time than originally estimated in the FY 1986 congressional budget justification. In addition, the number of monitoring actions will decline compared to the FY 1985 level. The reduced need for FTEs for monitoring enables OCR to buttress the FTE allocation in other compliance areas and compensate to some extent for the overall loss of FTEs required by sequestration and authorized in the FY 1986-87 budgets.

The following table summarizes the FY 1985 monitoring workload and projects activity for FY 1986-87:

Monitoring Workload

Status/Activity	FY 1985	FY 1986	FY 1987
Beginning Inventory	1,096	890	890
New Monitoring Actions	1,485	1,250	1,235
Completed Actions	1,691	1,250	1,235
Ending Inventory	890	890	890

Voluntary Compliance and Outreach

Purpose and Method of Operations - Through voluntary compliance activities, OCR provides technical assistance and compliance information to recipients of HHS funds to encourage voluntary compliance with the nondiscrimination laws and regulations. Technical assistance is made available through: training; developing and disseminating compliance information; and providing recipients and recipient groups and local and State officials with guidance on how to voluntarily comply. This component of OCR's compliance program serves three purposes: (1) to deter or prevent discrimination problems; (2) to provide recipients that are out of compliance with assistance in designing corrective action; and (3) to promote voluntary compliance among a wider universe of program recipients that are not subject to reviews or complaint investigations. In FY 1985, voluntary compliance activities included projects that:

- assisted state and local agencies on aging to increase their ability to reach minority and handicapped older Americans;
- trained state and local agency staff (e.g. Department's of Health) on methods for conducting reviews of civil rights compliance.

Outreach initiatives are focused on helping beneficiaries and/or potential beneficiaries of HHS-funded programs to understand their rights under the civil rights laws. In FY 1985, OCR's outreach activities included special projects that:

- trained leaders of refugee groups on the rights of persons of limited English-speaking ability, enabling recently resettled refugees to obtain nondiscriminatory health care services;
- strengthened communities' abilities to identify potential problems in hospital practices that may constitute violations of Hill-Burton Community Services Assurance requirements;
- assisted a local Urban League affiliate and the National Caucus on Black Aged to develop senior projects in disadvantaged communities to increase minority participation.

OCR outreach initiatives also encompassed cooperative efforts within the Department and with other Federal agencies. For example, OCR:

- served on the Secretary's Task Force on Black and Minority Health;
- provided a civil rights perspective to a Departmental task force assessing nursing home access for patients in need of heavy care;

- worked with the Department of Education, Office for Civil Rights (OCR) on a project to reach minority developmentally disabled persons.

During FY 1985, OCR's voluntary compliance and outreach activities were aimed at beneficiaries, program providers, and state and local government officials. The activities included responding to requests for compliance information, sponsoring and/or attending conferences, seminars, and training sessions, and conducting on-site visits to HHS-funded programs. Through these activities OCR broadened awareness of civil rights requirements, promoted the adoption of nondiscrimination policies and procedures, and helped develop voluntary compliance agreements to remedy compliance problems.

Rationale for the Budget Request - OCR plans to allocate 48 FTEs to voluntary compliance and outreach activities in FY 1987. This level is three FTEs lower than the revised FY 1986 allocation, but remains 12 FTEs higher than the staffing initially projected for these activities in last year's budget justification. OCR anticipates that FY 1986-87 program accomplishments will build and expand upon FY 1985 achievements.

As in prior years, emphasis will be placed on the following types of activities:

- Continuing special projects focused on the non-discriminatory provision of services;
- developing and disseminating materials containing guidance on how to comply with civil rights requirements;
- sponsoring or participating in training sessions, workshops, and other conferences with recipient and beneficiary groups;
- responding to requests for technical assistance through on-site consultations with State and local government officials;
- providing technical assistance to program recipients to develop and implement corrective action plans;
- implementing joint civil rights-related activities with the Department's operating divisions.

During FY 1986 and FY 1987, OCR will continue and/or implement approximately 200 special projects and other major outreach and voluntary compliance initiatives. During each year, OCR will sponsor and/or attend approximately 1,450 conferences, seminars, training sessions, and on-site meetings with recipients and/or beneficiaries to inform participants of their rights and responsibilities and to encourage the adoption of proper compliance procedures and standards.

2. LEGAL SERVICES

Purpose and Method of Operations - OCR's budget request contains funds to support the Civil Rights Division of the Department's Office of General Counsel. Division attorneys in headquarters and in the regional offices provide OCR staff with legal advice and assistance in interpreting and applying the nondiscrimination laws and regulations.

Specifically, the Civil Rights Division: (1) prepares cases for administrative enforcement proceedings and refers cases to the Department of Justice for enforcement; (2) assists the Department of Justice in litigating court cases involving civil rights issues and health and human services programs; (3) reviews or assists in developing civil rights regulations, policy interpretations, and guidelines; (4) issues legal opinions at OCR's request; (5) provides legal guidance in applying the Privacy Act, the Freedom of Information Act, and other statutes and regulations with which OCR must comply.

Rationale for the Budget Request - OCR will allocate 27 FTEs to legal services in FY 1987, one FTE below the revised FY 1986 level.

OCR anticipates that at the reduced FTE level the Civil Rights Division will be able to provide all necessary legal assistance in connection with letters of findings, corrective action plans, regulations, legal interpretations, guidelines, and technical assistance materials. Specifically, the attorney staff is expected to provide legal advice in connection with an estimated 150 investigated complaints, reviews, and corrective action plans, and 18 litigation matters. In addition, the attorney staff will review recommended enforcement actions, represent OCR at administrative hearings and appeals, and provide general legal guidance regarding court decisions and the scope and applicability of statutory and regulatory requirements.

3. PROGRAM MANAGEMENT

Purpose and Method of Operation - This component provides OCR with overall direction and management support needed to plan and accomplish program objectives. Management determines compliance and enforcement priorities, including program planning; allocates staff to priority objectives; monitors and evaluates progress; makes final decisions on OCR's compliance standards, procedures, proposed regulations and policy determinations; and ensures coordination with departmental officials and with other Executive Branch departments and agencies.

Rationale for the Budget Request - OCR will assign 34 FTEs to program management in FY 1987. This is a decrease of two FTEs compared to the revised FY 1986 level of 36 FTEs and a decrease of nine FTEs since FY 1985. The reduced allocation in FY 1986 reflects attrition as well as reassignment of some staff to compliance activities. OCR believes the reduced overhead is warranted in light of the overall FTE reduction in the FY 1986-87 budgets and the Gramm-Rudman-Hollings deficit reduction mandate.

OCR has responsibilities for formulating and executing its budget and for providing its staff with administrative support in such areas as personnel management, travel, procurement, preparing and monitoring financial plans and allowances, managing property and supply systems, and developing and managing ADP programs.

In addition, program management will carry out the following responsibilities in FY 1987:

- o coordinate program objectives and activities with other Federal departments and agencies, such as the Justice Department and the Equal Employment Opportunity Commission;
- o develop and implement program plans and the annual implementation plan, as required by Executive Order 12250, for submission to the Department of Justice;
- o coordinate government-wide implementation of the Age Discrimination Act, including the preparation of an annual report to Congress required by the statute; and
- o respond to approximately 1,000 inquiries and requests for information, including approximately 25 Freedom of Information and Privacy Act requests.

Detail of Permanent Positions*

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
ES-5	1	1	1
ES-4	1	1	1
ES-3	1	1	1
Subtotal	3	3	3
GS/GM-15	24	25	25
GS-GM-14	35	33	33
GS/GM-13	75	71	62
GS-12	145	143	143
GS-11	40	38	29
GS-10	1	1	1
GS-9	21	20	20
GS-8	10	9	9
GS-7	31	30	19
GS-6	22	22	19
GS-5	27	11	17
GS-4	14	14	8
GS-3	10	10	2
GS-2	1	—	—
Subtotal	456	427	387
Total Permanent Positions...	459	430	390
Unfilled Positions, End-of-Year	67	53	22
Total Permanent Employment, End-of-Year	392	377	368

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* Does not include temporary, stay-in-school, and junior fellow employees.

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